# QUESTIONS ON THE PRINCIPLES OF ECONOMICS

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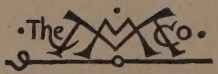


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# QUESTIONS ON THE PRINCIPLES OF ECONOMICS

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# PREFACE

MASTERY of the principles of Economics demands more than a reading of text-books and supplementary selections. It calls for frequent and thoughtful consideration of problems, concrete and abstract, by which conceptions may be clarified, truths driven home, fallacies laid bare, and powers of analysis and discrimination developed. To furnish material for such discipline is the general design of this collection of questions.

More specifically, such a collection in the hands of students in an introductory course in Economics may serve four main purposes:

(1) Most obviously, the questions may stimulate the student's interest. Assigned in conjunction with portions of a text-book or collateral reading, they may tempt the student to relate for himself the abstract analysis to concrete conditions and events which he may observe, and find for a general argument its everyday, near-at-hand applications.

(2) Secondly, such questions may aid in giving the beginner his points of compass in a first journey through a somewhat intricate subject. Thus he may more speedily acquire a sense of direction and proportion, a true perspective, which is easily missed in making the usual swift reconnaissance of the field of Economics.

(3) In the third place, the questions may serve to prepare the way for more pointed and effective classroom discussion. By making the student's thinking less extemporaneous and haphazard, they may strengthen and deepen the analysis of more difficult points, and furnish a helpful plan for ordering and mastering the significant details of the simpler material. The authors believe this can be done without emasculating the test

of oral or written quizzes, and without weakening the student by furnishing unnecessary props.

(4) Finally, by suggesting possible differences of opinion, the problems may arouse a questioning, combative mental attitude which conduces to independent thinking — an exercise whose satisfactions few sophomores appreciate; and by implying the shallowness or fallaciousness of certain commonly accepted catchwords or doctrines, they may promote an invaluable alertness of mind and encourage the student to lay a few bricks in a new intellectual structure of his own.

The book is arranged particularly for use with Professor Taussig's "Principles of Economics" (revised edition, 1915). Accordingly, the questions cover the general range of subject matter and are arranged and numbered in the sequence of that work, — *e.g.*, question 27. 2 is the second question on Chapter 27. Similar collections already published contain a vast amount of excellent problem material, but this is in a form difficult for the ordinary student to use in connection with a text-book built on a different plan. To be most effective as a teaching device and as an aid to study, such a collection needs to be thoroughly accessible and easy to use. It is therefore expected that this book will be serviceable chiefly in the hands of students who are using Taussig's "Principles" as a text-book, and who will go through the questions chapter by chapter as they read the text. At the same time, the use of the questions with other text-books is not precluded, inasmuch as they are grouped under more or less traditional topics and are not commonly couched in phraseology peculiar to Taussig. Furthermore, many of the questions are far from being simple and elementary, and may profitably be considered by more advanced students, especially by those who have not had the advantage of a thorough introductory course. Indeed, in using the book in elementary courses, instructors will ordinarily find it advisable to "star" for omission certain questions on nearly every chapter, in order to limit the student's burden to "what the traffic will bear." The authors have refrained from making this selection in ad-

vance, believing that it may best be done with special reference to local needs.

A few of the questions here presented are frankly borrowed from previously published collections; and in such cases, except where the appropriation has been unconscious or accidental, credit has been given by appropriate initials. Acknowledgments are here made for adaptations or quotations of questions from F. A. Fetter's "Principles of Economics" (Fet.); I. Fisher's "Suggested Problems for Teachers" (F.); S. Newcomb's "Principles of Political Economy" (N.); W. G. Sumner's "Problems of Political Economy" (S.); F. M. Taylor's "Principles of Economics" (T.); and the University of Chicago "Outlines of Economics" (O.). More of the questions have been drawn from a stock accumulated through several years in the hands of the instructing staff of the introductory course in Economics at Harvard University. Most of the question material, however, has been drafted by the authors during the past year with the specific purpose of the present book in mind. Even for this part no thoroughgoing originality can be claimed, so pervasive is the influence of the thoughts and phrases of others. But it is hoped that sufficient freshness of form and substance may be observable to justify the pretension of authorship.

EDMUND E. DAY,
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CAMBRIDGE, MASS.,
August 7, 1915.

# QUESTIONS ON THE PRINCIPLES OF ECONOMICS

## WEALTH AND LABOR

1. 1. Which of the following are economic goods: a Victor record; the moon; opium; the sunken *Titanic;* an athletic field; New York harbor; Caruso's voice; a five-dollar gold piece; a five-dollar bill; a mortgage; the registered trade name "Uneeda"; electricity; a primeval forest; a band concert; a glass eye; eyesight; weeds; land at the South Pole; friendship; labor?

Define "economic goods."

1. 2. Which of the following are public goods: Hudson River; the Panama Canal; Yellowstone Park; a city water system; lakes stocked by the government with fish; a harbor improved at government expense; a warship; the Weather Bureau service; a fire department; the University Museum?

Define "public goods."

1. 3. May a thing be wealth (*a*) to one person and not to another? (*b*) at one place and not at another? (*c*) at one time and not at another? Illustrate.

1. 4. "Nothing can be wealth unless the total supply is so narrowly limited that every part of it is necessary to satisfy existing wants."

Can you think of any exceptions? How, if at all, should you restate the point?

1. 5. Did the Emancipation Proclamation diminish the amount of wealth in the Southern States?

1. 6. "Labor employed in the productive work of industry is usually excluded from the category of national 'wealth.' . . . . But there is no sufficient reason for its exclusion. Any increase of the efficiency of labor of a nation is evidently as much an increase of its total vendible resources as an increase in its instrumental capital would be."

Do you agree?

1. 7. Most goods after being sold to consumers can be resold only at a lower price; they are "second hand." Does the fall in selling value indicate a decline in the wealth of the community?

1. 8. "The more things in the nature of wealth a community has, the less prosperous it is." Do you agree? Why or why not?

1. 9. Which of the following are labor: exercise to reduce one's weight; golf-playing; coaching a football team; serving as a bank director; serving on an unpaid government commission; painting for love of the art; military service?

Define "labor."

1. 10. Is the irksomeness of labor inevitable? How, if at all, may it be minimized?

## PRODUCTIVE AND UNPRODUCTIVE LABOR

**2. 1.** "Insurance is not production." Do you agree? If not, what product does an insurance company produce? a railroad company?

**2. 2.** Can there be production without the application of labor? Cite instances, if possible. Define "production."

**2. 3.** Are the following productive laborers: a contractor razing a building; a ticket speculator; a policeman on duty at an amateur baseball game; a grocer; a commission merchant; a bar-tender; a professor of fine arts; an examination proctor; a bond salesman; a publisher of sensational falsehoods; an agitator for Socialism; the admiral of a battleship fleet; the warden of a prison; a lawyer who successfully defends a guilty person; a smuggler of diamonds; a smuggler of Chinese coolies; a politician campaigning for high office; the writer of an advertisement for a harmless patent medicine?

Define "productive labor."

**2. 4.** When a millionaire purchases an up-to-date factory building which stands opposite his house and razes it in order to improve his view, is his action productive?

**2. 5.** "Some years ago a paper manufacturer near New Haven was offered a round sum if he would close his mill. This he did, to the benefit of both himself and his former rivals." Was his action productive?

**2. 6.** "Economic productivity is not a matter of piety or merit or deserving, but only of commanding a price. . . . The test of economic productivity in a competitive society is the fact of present gain, irrespective of any ethical criteria."

Do you agree?

**2. 7.** Is all productive labor honorable? legal? Is all unproductive labor dishonorable? illegal? Illustrate and give reasoning.

## THE DIVISION OF LABOR AND THE DEVELOPMENT OF MODERN INDUSTRY

**3. 1.** What are the various forms of the division of labor? What are the advantages of each?

What disadvantages have resulted from the division of labor? How, if at all, may these be reduced or eliminated?

**3. 2.** What was the Industrial Revolution? When did it begin? Is it a thing of the past? How has it affected the division of labor?

**3. 3.** Would the Industrial Revolution have taken place if transportation facilities had remained unimproved? In what way were improvements in transportation stimulated by developments in the industrial arts?

**3. 4.** Division of labor has been described as "unconscious coöperation" and as "specialization." Are these descriptions accurate? Which seems to you preferable?

**3. 5.** Should you expect a high development of the division of labor in (*a*) truck farming? (*b*) the manufacture of jewelry? (*c*) automobile repairing? (*d*) carpentering? (*e*) interior decorating? In each case give reasons.

**3. 6.** "The division of labor is limited by the extent of the market." Explain with reference both to the geographical division of labor and to the division of labor among individuals.

What other factors may limit the division of labor in any industry?

**3. 7.** What sorts of gain result from the geographical division of labor? Are there analogous gains in the division of labor among individuals?

## LARGE-SCALE PRODUCTION

**4. 1.** Which advantages of, and which limitations upon large-scale production appear most prominently in (*a*) the iron and steel manufacture? (*b*) retail trading? (*c*) dairy farming? (*d*) job printing? (*e*) watch manufacturing?

**4. 2.** How do you account for the appearance of widely different scales of production (*a*) in different industries? (*b*) within a single industry? Give examples.

**4. 3.** What are the limitations upon large-scale production in agriculture? in manufacturing?

Should you expect the scale of manufacture to be affected by a large increase of graduates from schools of business administration? Should you expect the scale of agriculture to be affected by a large increase of graduates from agricultural colleges?

**4. 4.** Does large-scale production entail disadvantages for (*a*) employers? (*b*) laborers? (*c*) consumers? (*d*) society at large?

**4. 5.** What are the two forms of large scale management? Illustrate each. What forces tend permanently to establish each form?

**4. 6.** Give three possible advantages of combination as distinct from large-scale production. Does large-scale management necessarily involve large-scale production?

**4. 7.** Do both horizontal and vertical combinations appear in the restaurant business in this vicinity? What forces promote combination in this business? Why is competition able to persist?

**4. 8.** What motives lead most strongly to horizontal combination? to vertical combination?

To which form of combination is the tendency the stronger? Why?

## CAPITAL

**5. 1.** Are the following capital: a dog; a wheat field; flour; a workman's lunch; a jail; a fountain pen; a railroad bond; a railroad ticket; an opera singer's talent; coal in a locomotive tender; a five-dollar gold piece; a street railway franchise; business goodwill; a college dormitory?

**5. 2.** "The difference between producer's and consumer's goods is at bottom only a difference of degree." Explain. What is the essential difference between them? What twofold relation does capital bear to consumer's wealth?

**5. 3.** "The distinction . . . between Capital and Not-Capital, does not lie in the kind of commodities, but in the mind of the capitalist — in his will to employ them for one purpose rather than another. . . ."

Do you agree?

**5. 4.** "Is it your opinion that the knowledge and skill in production which a man may acquire by long practice and study should be regarded as part of his capital? Compare the cases of two men, one of whom has saved his wages to be invested in bonds, while the other has employed his in educating himself so as to command higher wages." (N.)

**5. 5.** Draw up a list of the important forms which capital takes.

**5. 6.** What is meant by "saving"? Is capital ever formed without saving? Does all saving result in the formation of capital? Does all investment? If possible, give examples.

**5. 7.** "The savings of the people of the United States are nearly a billion dollars a year. What and where are they?" (Fet.)

**5. 8.** "It is . . . the *genesis of new capital* that requires abstinence. The maintenance of it, the mere renewal of the

wasting tissue of it, does not. . . . The keeping up of the series of capital goods is, in a sense, automatic. The mill, the ship, etc., virtually replace themselves as they are worn out."

Do you agree?

5. 9. "Through long periods of saving the capital in the community has been so greatly increased that there is no longer any need for individual saving. . . . Hence, the hard-fisted man is not in demand, but rather the man who will consume and enjoy. It is no longer necessary that a man abstain in order to save. The modern community as a coöperative group is producing enough for all."

Do you agree?

5. 10. To what extent and in what manner do the following contribute to the formation of capital: a miser; a postal savings bank; a life insurance company; government borrowing; a manual training school teacher; a college professor?

5. 11. What obstacles hindered the creation of capital in primitive times? What obstacles to-day impede the growth of capital in Mexico? in the United States?

5. 12. "Capital is produced." "Capital is saved." Can these two statements be harmonized?

5. 13. Why should wages paid to subway laborers be called "advances"? Are all wages "advances" in the same sense?

5. 14. Capital has been variously characterized by economists as (*a*) "inchoate wealth"; (*b*) "congealed labor"; (*c*) "intermediate goods"; (*d*) "produced means of production"; (*e*) "future goods." In what sense is each an apt description? Which is preferable?

5. 15. What distinction has been drawn (*a*) between "capital to the individual" and "capital to the community"? (*b*) between "capital" and "capital goods"?

5. 16. In what terms may the quantity of capital be measured?

## THE CORPORATE ORGANIZATION OF INDUSTRY

6. 1. Should you expect corporations or partnerships to be the more common in (*a*) retailing bonds? (*b*) truck farming? (*c*) gold mining? (*d*) the manufacture of explosives? (*e*) automobile repairing? (*f*) preparatory school education? (*g*) ship building? (*h*) aërial navigation? (*i*) insurance?

6. 2. A corporation, formed with capital stock of $10,000, is forced to dissolve. Its outstanding debts are $15,000. How much will be lost (*a*) by the creditors, (*b*) by the stockholders, if the assets yield $10,000? $15,000? $20,000? $30,000?

6. 3. Enumerate the distinctive characteristics of the corporation. Which seem to you most important and why?

6. 4. Do you see any causal connection between the great increase of corporations and the Industrial Revolution in its later stages?

6. 5. In what respects is the wide extension of the corporate organization of industry advantageous, in what respects disadvantageous, for (*a*) the business man? (*b*) the investor? (*c*) the community at large?

6. 6. Should you favor a tax, at the rate of 1 per cent of the market value, on all transfers of corporation securities?

6. 7. Who are the financial middlemen of this vicinity? of New York City? What part do they play (*a*) in the formation of capital? (*b*) in the management of corporations?

6. 8. How has the corporate organization of industry made (*a*) savings more "liquid"? (*b*) financial middlemen more powerful? (*c*) the leisure class more permanent?

## SOME CAUSES AFFECTING PRODUCTIVENESS

**7. 1.** "In the building of a new town in Maine it was found to be economical to spend considerable sums of money for supplying food for the men at less than cost, rather than to have them eat the food provided by the local boarding-houses."

Explain.

**7. 2.** Under what conditions would an increase of wages cause a prompt increase in the efficiency of the wage earners? Assuming an increase of efficiency possible by such means, should you expect employers to raise the wages?

**7. 3.** "The curse of the poor is their poverty." What are the economic grounds for this statement?

**7. 4.** What should you consider the "necessaries for efficiency" for a pick-and-shovel worker? a bookkeeper? a motorman? an artist? a foundry hand? the president of a large railroad company?

**7. 5.** Is it desirable that wages should always be sufficient to provide the "necessaries for efficiency"? no more than sufficient?

**7. 6.** In what way is the productiveness of labor affected by (*a*) a wide diffusion of elementary education? (*b*) extensive opportunities for technical education? (*c*) extensive facilities for higher education?

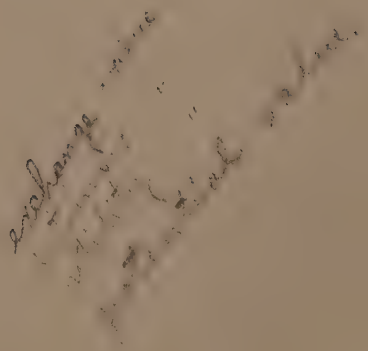
**7. 7.** Under what conditions, if any, might an effective increase in educational facilities lower wages (*a*) for certain individuals? (*b*) in general?

**7. 8.** "The business men sit by and merely levy toll." Criticize.

**7. 9.** How is industrial leadership affected by (*a*) the

diffusion of education? (*b*) freedom of opportunity? (*c*) inequality of possessions? (*d*) immaterial rewards?

7. 10. Concisely describe the economically important elements in the immaterial equipment of the United States. What is essential to the maintenance of this equipment? its increase?



## EXCHANGE, VALUE, PRICE

**8. 1.** "Internal commerce does not increase the wealth of a nation since it only transfers goods from one person to another." (T.) Do you agree?

**8. 2.** In what sense is the term "value" used in the following statements?

(*a*) "Whisky is of no permanent value to society."

(*b*) "We offer the biggest values in the city."

(*c*) "The book cost me two dollars, but that does not measure its value."

(*d*) "The floods caused a tremendous destruction of values."

(*e*) "The value of a silver dollar is really only forty cents."

(*f*) "Prices of railway and industrial stocks may still be below values."

**8. 3.** "Any commodity in general use will serve passably as a medium of exchange." Can you think of any commodities now in general use in this community of which the statement is not true?

What commodities other than gold and silver might serve satisfactorily as mediums of exchange?

**8. 4.** How should you determine the value of an ounce of gold? your overcoat? a railroad terminal? a court house? a college stadium? a book prized for sentimental reasons?

**8. 5.** A general rise in prices takes place. What does this indicate as to (*a*) the price of potatoes? (*b*) the value of money? (*c*) a general rise in values?

8. 6. Suppose the following course of prices:

| | 1873 | 1895 | 1912 |
|---|---|---|---|
| Silver per ounce . . . . . | $1.30 | $0.65 | $0.61 |
| Wheat per bushel . . . . . | 1.32 | .67 | 1.10 |
| Relative height of prices in general . . . | 100 | 60 | 85 |

What changes, if any, would be indicated in the values of silver and wheat (*a*) from 1873 to 1895? (*b*) from 1895 to 1912?

## VALUE AND UTILITY

**9. 1.** Can you think of anything possessing value but not utility? utility but not value? both utility and value but having no price?

**9. 2.** If the supply of an article is increased, how is the value per unit ordinarily affected? Why? Does the value of the total stock rise or fall? Why?

**9. 3.** Granted that more satisfaction is often derived from the second hearing of an opera than from the first, and from the fifth olive than from the first, are these cases exceptions to the tendency to diminishing utility?

State the law of diminishing utility.

**9. 4.** List some goods in respect to which the point of satiety tends to be reached most rapidly (*a*) in your own case; (*b*) in the case of society at large.

Define "point of satiety."

**9. 5.** Of what is "consumers' surplus" a surplus? Is it shared equally by all consumers?

Under what circumstances should you expect a large consumers' surplus? a small?

What difficulties are encountered in its measurement?

**9. 6.** What different meanings may be attached to the phrase "the income of a community"? Is all "income" of economic significance?

**9. 7.** If all men possessed equal property and equal income, (*a*) would changes in the supply of a commodity affect its price less or more than at present? (*b*) would the marginal utility of money be the same to all? (*c*) would all men enjoy the same consumers' surplus for each commodity? (*d*) would human happiness be greater or less?

## MARKET VALUE. DEMAND AND SUPPLY

**10. 1.** In what sense is the term "market" used in the following statements?

(*a*) "The division of labor is limited by the extent of the market."

(*b*) "I am going to market."

(*c*) "We should build up our South American market."

(*d*) "There was no market for apples."

(*e*) "There is a world market for cotton."

Define "market."

**10. 2.** What two interpretations may be given the statement, "The demand for gasoline has greatly increased"? Which interpretation is employed in this chapter?

Define "demand."

**10. 3.** The demand for such goods as building lots, paper, salt, and unskilled labor is sometimes called a "composite demand." Why? Give other examples.

**10. 4.** The demand for such goods as plows, agricultural land, motor trucks, and copper is sometimes called a "derived demand." Why? Give other examples.

**10. 5.** Should you expect the demand for the following to be elastic or inelastic: diamonds; salt; pepper; hair cuts; ink; tennis balls; playing cards; automobiles?

Define (*a*) "an elastic demand"; (*b*) "elasticity of demand."

**10. 6.** Should you expect the demand for a commodity to be elastic or inelastic (*a*) if there are many available substitutes for it? (*b*) if there are many possible uses for it? (*c*) if its price places it beyond the reach of the masses? (*d*) if the desire for it is nearly satiated? (*e*) if the desire for exactly this commodity is deeply ingrained?

**10. 7.** "Are supply and stock on hand the same?" (O.)

Does the supply of a commodity include what is possessed by consumers? May the supply of a commodity exceed the entire quantity in existence?

Define "supply."

**10.** 8. Would doubling the supply of all commodities affect exchange values? (Fet.)

**10.** 9. "I am yet unable to understand how it happens, with our export of flour stopped, that the price to local consumers is still going up." (From a speech made soon after the outbreak of the European war.) What explanations can you suggest?

**10.** 10. What is meant by the following statements?

(*a*) "Value is determined by marginal utility."

(*b*) "Value is determined by the equilibrium of demand and supply."

Are the statements consistent?

**10.** 11. Indicate the order in which the following demand schedules stand with respect to elasticity of demand. Plot demand curves corresponding to the schedules.

| Assumed Prices | Number of Units that would be Taken | | |
|---|---|---|---|
| | Of *a* | Of *b* | Of *c* |
| 25¢ | 100 | 400 | 50 |
| 20 | 200 | 500 | 100 |
| 15 | 300 | 600 | 200 |
| 12 | 400 | 700 | 400 |
| 10 | 450 | 800 | 800 |
| 8 | 600 | 900 | 1,600 |
| 6 | 800 | 1,000 | 2,500 |
| 5 | 1,200 | 1,200 | 3,600 |
| 4 | 2,000 | 1,250 | 5,000 |
| 3 | 3,000 | 1,300 | 10,000 |
| 2 | 5,000 | 1,350 | 20,000 |
| 1 | 8,000 | 1,400 | 40,000 |

**10.** 12. "If demand is doubled, the supply remaining the same, the price is doubled; and if the supply is doubled, the demand remaining the same, the price is reduced one half." Do you agree? Illustrate by diagram.

**10.** 13. Why does the demand curve usually descend toward the right? Does it necessarily so descend?

What is indicated when the demand curve touches the vertical axis? the horizontal axis?

What is signified by a sharply declining demand curve? an almost horizontal demand curve?

How should you represent an increased demand? a doubled demand?

**10.** 14. Construct a diagram showing the determination of the market value of first-edition Shakespeares.

**10.** 15. Distinguish market value and normal value. Can you determine the normal value by averaging market values? Is there a normal value for seasonal goods; perishable goods; domestic service; a first folio of Shakespeare?

**10.** 16. In what ways is the demand for capital goods dependent upon (*a*) "the utility of the consumable goods they aid in making"? (*b*) general business conditions?

**10.** 17. What forces tend to make retail prices inflexible? flexible? How far are retail prices determined by marginal utility?

**10.** 18. What is meant by a "fair price"?

**10.** 19. Under what circumstances may utility to sellers affect the price of an article?

## SPECULATION

**11.** 1. What is meant by "dealing in futures"? How does it tend to affect (*a*) the price of wheat for the farmer? (*b*) the profits of the miller? (*c*) the price of flour to the consumer?

**11.** 2. Should you expect the development of cold storage to mitigate or to aggravate fluctuations in the prices of perishable foodstuffs?

**11.** 3. Why should there be more speculation (*a*) in cotton than in wool? (*b*) in corn than in rice (in the United States)? (*c*) in stocks than in bonds? (*d*) in copper than in steel?

What conditions are most conducive to the development of organized speculation in any commodity?

**11.** 4. How does organized speculation tend to affect (*a*) the market value, (*b*) the normal value, of the commodities concerned?

How does it affect value to the producer? value to the consumer?

**11.** 5. "The more speculators, the better for the legitimate dealer." Why or why not?

**11.** 6. What is the essential difference between the productive and the unproductive speculator? Give at least two reasons why the activity of the latter is economically undesirable. Why is it not suppressed?

**11.** 7. "A great point has been made of the fact that prices have advanced so little [in the wheat market since the opening of the war]. . . . It is greatly to be hoped that the Government will not attempt to do more than modify any vicious and extreme fluctuations of price. Should they do so they may very easily produce later effects much worse than those they seek to avoid."

In what ways might the prevention of an advance in price be objectionable?

## VALUE UNDER CONSTANT COST

**12.** 1. What are the important elements of cost in the production of (*a*) illuminating gas? (*b*) raw cotton? (*c*) anthracite coal? (*d*) fine watches? (*e*) railway transportation? (*f*) grand opera?

Should you include in cost (*a*) the rent of the building and site occupied? (*b*) interest on the bonds of the producing corporation? (*c*) dividends on its common stock?

**12.** 2. Under conditions of constant cost of production is the cost per unit the same (*a*) for all producers at the same time? (*b*) for a single producer at different times? (*c*) for all parts of one producer's output? (*d*) for outputs of different size at a given time?

**12.** 3. Should you expect to find production at constant cost in a business in which (*a*) the output is conditioned by fertility of soil? (*b*) rapid improvement in methods of production is taking place?

What conditions of production are essential to constant cost? Cite industries in which you think these conditions are approximated.

**12.** 4. How, if at all, would the doubling of a demand for a commodity produced at constant cost affect, in the long run, (*a*) its marginal utility? (*b*) the quantity exchanged? (*c*) its value per unit? (*d*) the cost per unit? In what respects would the immediate effect be different?

Illustrate by diagram.

**12.** 5. Two commodities produced at constant cost require for their production equal amounts of the same raw material and equal amounts of the same grade of labor. Would their market values be the same? their normal values?

**12.** 6. What is meant by "free competition"? Draw up a list of obstacles to the play of competition.

supply – determined by cost.
demand – marginal utility determines

## VALUE AND VARYING COSTS. DIMINISHING RETURNS

**13.** 1. "Marginal cost determines value." Explain "marginal cost." Under what conditions, if at all, is the statement true?

When costs are different for competing producers, whose cost determines the normal value of the product when the differences in cost are (*a*) temporary? (*b*) permanent?

**13.** 2. "A market price at which marginal cost and marginal utility do not coincide cannot persist." Explain and illustrate by diagram.

**13.** 3. How, if at all, would the doubling of the demand for a commodity produced at increasing cost affect, in the long run, (*a*) its marginal utility? (*b*) the quantity exchanged? (*c*) its value per unit? (*d*) the marginal cost? In what respects would the immediate effect be different?

Illustrate by diagram.

**13.** 4. "Agricultural land cannot yield increasing returns as there is a limit to its productivity. Its returns are hardly ever constant as land becomes poorer with each succeeding crop and must be fertilized. On the other hand, factories usually yield increasing returns due to the invention of new processes." This statement involves a mistaken notion of increasing, constant, and diminishing returns. Point out the errors.

**13.** 5. "The price of wheat this year (1900) is lower than it was in the year 1800. This surely proves that, during the period indicated, the industry of wheat raising was subject to the law of increasing rather than that of diminishing returns." (T.) Does it?

**13.** 6. Given:

| Value of Labor and Capital invested per Plot of 10 Acres | Total Yield in Bushels per Plot |
|---|---|
| $ 5 | 35 |
| 10 | 80 |
| 15 | 135 |
| 20 | 200 |
| 25 | 275 |
| 30 | 300 |
| 35 | 315 |
| 40 | 320 |

At what point does the tendency to diminishing returns appear? If the price of the product were $1 a bushel, how much labor and capital could profitably be employed on each acre?

**13.** 7. Concretely, how should you expect the tendency to diminishing returns to show itself in (*a*) dairying? (*b*) market gardening? (*c*) forestry? (*d*) copper mining? (*e*) the manufacture of locomotives? (*f*) office buildings?

## VALUE AND INCREASING RETURNS

**14.** 1. "Here cost is supposed to be uniform but not constant, — it becomes less per unit as the number of units increases." What conditions of cost of production are here described? Distinguish the terms "uniform" and "constant." Explain the statement and illustrate by diagram.

**14.** 2. "We have a good example of diminishing costs and increasing returns in the case of the Edison Electric Light Co., which is yearly reducing the price of its incandescent bulbs." Do you agree?

**14.** 3. "While this metal [Tungsten] is almost exclusively used in electric lamp filaments and the supply controlled by the General Electric Co., under an increased demand price would soon go down to a few dollars per pound." How might this be?

**14.** 4. "Telephone officials agree that it costs more and not less to serve a subscriber in a large town than in a small one, even if the number of calls used is the same." Should you for this reason consider the telephone business conducted under conditions of diminishing returns? What is the unit for which cost must be calculated in this business?

**14.** 5. Explain "producers' surplus." Under conditions of increasing returns is there a producers' surplus? Is there such a surplus under conditions of diminishing returns?

Illustrate by diagram.

**14.** 6. How, if at all, would the doubling of the demand for a commodity produced at decreasing cost affect, in the long run, (*a*) its marginal utility? (*b*) the quantity exchanged? (*c*) its value per unit? (*d*) the cost per unit? In what respects would the immediate effect be different?

Illustrate by diagram.

**14.** 7. Should you class as "external" or "internal" the economies secured (*a*) by Milwaukee brewers from the location of a bottle factory in that city? (*b*) by a railroad system through the operation of a large car repair shop? (*c*) by a shoe manufacturer through the establishment of his factory in Lynn? (*d*) by a large chain of drug stores through the control of a German chemical company?

**14.** 8. Enumerate the causes of the tendency toward increasing returns.

If internal economies were attained indefinitely, what would be the outcome and why? What factors generally prevent this outcome?

## MONOPOLY VALUE

**15. 1.** Are the following monopolists: (*a*) the owner of a copyright; (*b*) the owner of the best site on the lake front in Chicago; (*c*) a corporation manufacturing 80 per cent of the steel rails sold in a country; (*d*) a corporation purchasing 80 per cent of the steel rails sold in a country; (*e*) the United States post office; (*f*) the sole possessor of the secret of making glass flowers?

Define "monopoly."

**15. 2.** Can a monopolist sell all of a given stock of goods for more than the identical stock would bring under competitive conditions? Why can a monopolist make more profit than competing producers?

**15. 3.** Can a monopolist charge what he pleases for his product? What determines the precise point at which the monopoly price tends to settle?

**15. 4.** Is the entire profit of a monopolist "monopoly profit"? What is monopoly profit? How does it differ from "producers' surplus"? Illustrate by diagram.

**15. 5.** In what ways, if at all, is monopoly price affected by (*a*) cost of production per unit? (*b*) potential competition? (*c*) an elastic demand for the product? (*d*) the existence of satisfactory substitutes for the product? (*e*) hostile public opinion?

**15. 6.** "The Dutch East India Company used to destroy part of its spice crop to enhance its profits." What conditions were essential to make this policy a good one for the company?

**15. 7.** Suppose a monopolized article is produced under conditions of constant cost. What price policy will the monopolist adopt if the demand for the article is (*a*) elastic? (*b*) inelastic? Illustrate by diagram.

How, if at all, will the monopolist's policy differ if he produces under conditions of diminishing cost? Illustrate by diagram.

**15.** 8. Given the following conditions of demand and supply:

| Assumed Prices | Quantity Demanded | Expenses of Production |
|---|---|---|
| 1¢ | 1,000,000 | |
| 2 | 900,000 | |
| 3 | 800,000 | |
| 4 | 700,000 | $10,000 plus 2¢ per unit |
| 5 | 600,000 | |
| 6 | 500,000 | |
| 7 | 400,000 | |
| 8 | 300,000 | |
| 9 | 200,000 | |
| 10 | 100,000 | |

(*a*) Draw up a supply schedule. (*b*) What price would be fixed under conditions of competition? (*c*) What price would yield the maximum profits to a monopolist?

Illustrate by diagram.

**15.** 9. What is "dumping"? What induces it? To what extent is it dependent upon (*a*) monopoly conditions? (*b*) tariff barriers?

**15.** 10. What is the effect of a successful corner in wheat on the price of (*a*) wheat to outside speculators? (*b*) flour to the consumer?

## JOINT COST AND JOINT DEMAND

**16. 1.** In what respects do the following illustrate either joint supply or joint demand: general farming; book publishing; ship building; retailing groceries; university instruction; automobile manufacture?

Cite four examples of joint demand not previously mentioned.

**16. 2.** What elements should you consider in calculating the cost of transporting by railway (*a*) a trainload of hogs? (*b*) a carload of potatoes? (*c*) a tub of butter?

In what respects would the calculation of cost be simpler in shipments by express companies?

**16. 3.** Suppose an increase in the demand for beef hides. In what direction and by what means would this tend to affect the long-run value of (*a*) beef hides? (*b*) the best cuts of beef? (*c*) the poorer cuts of beef? (*d*) mutton? (*e*) bone fertilizer?

**16. 4.** What determines the value of (*a*) a group of three joint products? (*b*) the principal product of the group? (*c*) the by-products?

How, if at all, would extensive advertising of the by-products affect the price of the principal product (*a*) if competition prevail? (*b*) if the production be monopolized?

**16. 5.** Suppose *a*, *b*, and *c* are essential to the production of *x*, and the demand for *x* increases. What determines how the prices of *a*, *b*, and *c* individually will be affected (*a*) immediately? (*b*) ultimately?

## THE PRECIOUS METALS. COINAGE

**17.** 1. Are the following money: an individual's promissory note; an individual's bank check; a bank loan; a government bond; a postal money order; postage stamps; a railroad mileage book; a five-dollar bill issued by the Southern Confederacy; an old Roman coin; a bar of gold?

Define "money."

**17.** 2. What functions has money? To what extent are these well performed by (*a*) gold? (*b*) silver? (*c*) copper?

**17.** 3. "Would it be possible to have a standard of value which did not serve as a medium of exchange? a medium of exchange which did not serve as a standard of value? Can you find examples in the currency of this country?" (O.)

**17.** 4. "The following were . . . used by the ancient Chinese as . . . currency: (*a*) sea shells; (*b*) tortoise shells; (*c*) skins of beasts; (*d*) domestic animals; (*e*) pearls and precious stones; (*f*) pieces of cotton and silk cloth; (*g*) instruments of daily use."

What qualities in each led to its use as money? In what respects was each defective?

**17.** 5. Would gold serve as well as money (*a*) if it had no value apart from monetary use? (*b*) if it had but one tenth of its present value?

Would gold have as much value if it did not serve as money?

**17.** 6. Distinguish "free coinage" and "gratuitous coinage."

**17.** 7. What reasons are assignable for (*a*) the use of alloy in coining? (*b*) government monopoly of coinage? (*c*) milling coins? (*d*) exacting seigniorage?

**17.** 8. How much *above*, and how much *below* the mint price of gold may its market price be? What conditions might

lead to this variation? What forces would prevent wider variation?

**17.** 9. What is a dollar? Should you say "a dollar bill is a dollar," or "a dollar bill is worth a dollar"?

**17.** 10. If half the world's stock of money were suddenly to disappear, how would the following be affected: (*a*) the price level; (*b*) the value of gold watches; (*c*) the amount of wealth; (*d*) general prosperity?

How do you measure (*a*) the quantity of money? (*b*) the amount of wealth?

**17.** 11. "What facts go to determine the amount of money which a country needs?" (S.)

## QUANTITY OF MONEY AND PRICES

**18. 1.** How, if at all, is the value of money affected by (*a*) a greatly increased demand for gold ornaments? (*b*) an extension of the division of labor? (*c*) lavish expenditure? (*d*) an increased rapidity of circulation of goods? (*e*) the growth of mail order houses, *e.g.* Sears, Roebuck & Co.? (*f*) a decreased hoarding of specie?

**18. 2.** In what ways should you expect a general European war to affect the value of money?

**18. 3.** If the value of money should decline 50 per cent, how would the value of gold jewelry be affected? How would its price?

**18. 4.** Has the demand for silver increased in recent years? Has the demand for gold? Has the demand for money?

**18. 5.** How, if at all, does the drain of specie to the East affect the value of money in the Orient? in Europe? How do you explain any differences observed?

**18. 6.** Washington is reported to have said, in 1797, on being told of the discovery of a silver mine, that "it would give him real uneasiness, should any silver or gold mines be discovered that would tempt considerable capital into the prosecution of that object, and that he heartily wished for his country that it might contain no mines but such as the plow could reach, excepting only coal and iron."

Do economic considerations justify his view?

**18. 7.** "If ten times the labor were given to gold mining that is now given, and ten times the gold were thereby got, the world would not be better off." Explain. Is gold mining productive labor?

Would your answer be different if gold were used solely for monetary purposes?

**18.** 8. "Thoreau thinks 'tis immoral to dig gold in California; immoral to leave creating value, and go to augmenting the representative of value, and so altering and diminishing real value." (Emerson's *Journal*, 1854.) How far, if at all, should you agree?

## THE COST OF SPECIE IN RELATION TO ITS VALUE

**19.** 1. In what particulars is the demand for gold essentially different from the demand for (*a*) raw cotton? (*b*) agricultural land? (*c*) silver?

In what particulars are the conditions of supply for gold different from those for these same commodities?

In what respects is the relation of cost to value different in the several cases?

**19.** 2. Has gold a normal value? If not, why not? If so, what determines it?

**19.** 3. What was the proportionate increase in the stock of the precious metals (*a*) between 1493 and 1660? (*b*) between 1850 and 1860? Was the monetary stock equally affected? What changes in the price level occurred in the two periods? How do you account for the slighter effects in the later period?

**19.** 4. Gold can to-day be profitably extracted from ore which was discarded as waste in 1850. Prices to-day are approximately 25 per cent higher than in 1850. How do you reconcile these facts? Will a fall in the value of gold *inevitably* drive some mines out of operation?

**19.** 5. By what process does the value of gold determine what mine shall become the marginal mine?

**19.** 6. Suppose the discovery of a new process which reduces by 50 per cent the cost of taking gold from the ore. By how much and by what process will the value of gold be affected? the extent of gold mining? Is your answer consistent with Professor Taussig's conclusions?

## BIMETALLISM

**20. 1.** Does the mint ratio of gold and silver remain stable when (*a*) the market ratio fluctuates? (*b*) the value of the silver in the silver dollar fluctuates? (*c*) the value of gold fluctuates? What determines the mint ratio?

**20. 2.** Does the government fix the value of the gold dollar? the silver dollar? the nickel?

In what different ways may the government influence the value of money?

**20. 3.** A country freely coins a gold dollar containing 20 grains of fine gold and a silver dollar containing 300 grains of fine silver, and coins on government account subsidiary silver coins containing proportionately one tenth less of fine silver. What coins will circulate when the market ratio of gold and silver is (*a*) 16 to 1? (*b*) 15 to 1? (*c*) 14 to 1? (*d*) 13 to 1? In each case which metal, if either, is "overvalued"?

**20. 4.** Give four historical examples of the working of Gresham's law. State the law.

**20. 5.** "Money is a product of evolution, a result of the ages. The better has gradually crowded the poorer out of existence." Can you reconcile this statement with Gresham's law?

**20. 6.** Why did fractional silver coins in the United States tend to disappear after 1850? What measures were taken in consequence to regulate this part of the subsidiary coinage? Were all of these measures necessary? Under what circumstances, if any, would the difficulty of the fifties recur?

## BIMETALLISM. THE DISPLACEMENT OF SILVER

**21.** 1. "The very existence of the double standard tends to bring the relative values of gold and silver toward the ratio chosen." Explain, and illustrate from French experience.

**21.** 2. In what respects was the bimetallist argument supported by the experience of France? the United States?

**21.** 3. When and why was free coinage of silver abandoned by (*a*) France? (*b*) Germany? (*c*) United States? (*d*) India?

**21.** 4. Is there a fixed coinage ratio for gold and silver in the United States? Is gold freely coined? is silver? Is gold full legal tender? is silver? Is the monetary standard bimetallic?

Define "limping standard" and distinguish it from bimetallism.

**21.** 5. What is the market value of the silver in a silver dollar?

Suppose the United States adopted the policy of free coinage of silver at the ratio of 16 to 1. How would this tend to affect (*a*) the make-up of the circulating medium? (*b*) the general price level? (*c*) the market value of silver?

**21.** 6. Would bimetallism be more likely to succeed (*a*) if the coinage ratio chosen were near the existing market ratio? (*b*) in a country which used much metal in its coinage? (*c*) if adopted internationally? (O.)

**21.** 7. Would universal bimetallism conduce to a stable market ratio between gold and silver? to a stable price level? For what reasons does either seem desirable?

## CHANGES IN PRICES

**22.** 1. Wholesale prices in the United States in 1897 and 1912 were approximately as follows:

| | 1897 | 1912 |
|---|---|---|
| Bacon (per lb.) | $ .05 | $ .11 |
| Butter (per lb.) | .18 | .30 |
| Chairs (per doz.) | 3.50 | 6.00 |
| Coal (per ton) | 4.00 | 5.00 |
| Corn (per bu.) | .25 | .70 |
| Cotton (per lb.) | .07 | .12 |
| Hosiery (per doz. pairs) | 1.85 | 1.85 |
| Sole leather (per lb.) | .20 | .25 |
| Wheat (per bu.) | .80 | 1.05 |
| Woolen dress goods (per yd.) | .42 | .66 |

Assuming prices of 1897 as base prices, calculate index numbers for 1912, using (*a*) the simple arithmetic mean; (*b*) the median; (*c*) the weighted arithmetic mean (supposing the relative importance of the different articles to be as follows: foods, 10; clothing, 4; house furnishings, 1; and fuel, 1).

What are the special advantages of each of these methods?

**22.** 2. When prices are rising how are the following affected: debtors; farmers; factory operatives; manufacturers; owners of gold mines; bondholders; stockholders; interest rates?

**22.** 3. "There is reason to expect . . . that rising prices during the next generation will be accompanied by money incomes rising still more." Why?

Who gains and who loses (*a*) by stationary incomes with falling prices? (*b*) by rising incomes with stationary prices?

**22.** 4. What is the "multiple standard"? For what is it a standard? What may be said for and against its adoption?

**22.** 5. "Rising prices seem to cause prosperity, falling prices adversity." How far, if at all, are the real consequences different?

**22.** 6. "Most business men and most financial writers of the daily and weekly press are unconsciously inflationists." Why is this to be expected?

## GOVERNMENT PAPER MONEY

**23.** 1. If inconvertible paper money is issued, what factors affect its circulation? its value?

**23.** 2. Is fiat money necessarily paper money? Is it necessarily inconvertible? Is all inconvertible money fiat money?

**23.** 3. What constitutes "over-issue" in the case of fiat money? Cite historical instances of fiat money in which over-issue (*a*) has occurred, (*b*) has been avoided.

**23.** 4. "The specie premium does not measure real depreciation with accuracy." Explain "specie premium," "real depreciation," and the statement.

**23.** 5. What are the essential differences between the two sorts of convertible government paper money? In what respect is the use of either (*a*) advantageous? (*b*) dangerous?

**23.** 6. How far, if at all, may depreciation take place with (*a*) inconvertible paper money? (*b*) "inconvertible specie"? (*c*) convertible paper money?

**23.** 7. What kinds of money circulated in the United States in 1800? 1840? 1860? 1870? 1880? 1895? Explain any changes noted.

**23.** 8. What different forms of currency are now in circulation in the United States? What practices insure their circulation at parity?

**23.** 9. Outline (giving dates for the principal events) the monetary history of the United States.

## BANKING AND THE MEDIUM OF EXCHANGE

**24.** 1. Distinguish between investment banking and commercial banking. By whom is investment banking conducted in the United States? Are the two necessarily conducted by separate institutions?

**24.** 2. "A savings bank accepts deposits." "During the panic of 1907, deposits in safety vaults greatly increased." "The deposits of the First National Bank exceed $10,000,000." Of what should you expect the "deposits" to consist in each case?

**24.** 3. How does a bank "issue" notes? By whom and why are they returned?

**24.** 4. What expenses are involved in the issue of bank notes? How is revenue secured from such issue?

**24.** 5. What is a promissory note? Describe the process of its discount at a commercial bank. In what different forms may the proceeds be taken?

**24.** 6. In what two forms may a commercial bank lend its credit? Compare the two as to (*a*) security, (*b*) velocity of circulation, (*c*) extent of use.

**24.** 7. "The leading operations of banks, when analyzed, can be resolved into cases of the exchange of rights against rights, or of rights against money." Explain the validity of this statement in the case of (*a*) deposits over the bank's counter; (*b*) note issue; (*c*) the discount of a promissory note; (*d*) the creation of deposits.

**24.** 8. Compare the following in respect to probable use of deposit currency: (*a*) the people of the United States and of Mexico; (*b*) a farming community and Chicago; (*c*) wholesale and retail purchasers.

What factors determine the relative importance of deposit currency in the circulating medium?

**24.** 9. Briefly describe the process of clearing checks. By what process and to what extent does it economize the use of money?

**24.** 10. A, B, C, D, and E are banks constituting a clearing house association. On a given day they present checks for clearing as follows:

| Against . . . . | A | B | C | D | E |
|---|---|---|---|---|---|
| By A . . | —— | $15,250 | $19,400 | $10,325 | $10,150 |
| B . . | $11,175 | —— | 17,900 | 7,500 | 9,125 |
| C . . | 20,750 | 18,100 | —— | 14,075 | 12,175 |
| D . . | 9,250 | 8,475 | 13,325 | —— | 7,100 |
| E . . | 9,325 | 7,650 | 9,175 | 10,525 | —— |

Find: (*a*) the total amounts due to and by each bank; (*b*) the balance due to or by each bank; (*c*) the percentage of checks settled by offset. In what different ways may the balances be settled?

## BANKING OPERATIONS

**25.** 1. Arrange the following items in the form of a bank statement showing in parallel columns the resources and liabilities: Real Estate, $30,000; Surplus, $30,000; Deposits, $283,000; Loans, $300,000; Cash, $80,000; Undivided Profits, $12,000; Other Assets, $10,000; Capital Stock, $100,000; Bonds and Stocks, $80,000; Circulating Notes, $75,000.

What items will be affected, and how, by each of the following operations?

(*a*) The bank makes a new loan of $20,000 for two months at the discount rate of 6 per cent per annum; proceeds are taken one-sixth in specie and the balance in a deposit account.

(*b*) New deposits of $10,000 are made over the bank's counter, — $2000 in gold and silver, $2000 in notes of other banks, $1000 in notes of this bank, $3000 in checks on other banks, $2000 in checks drawn on this same bank.

(*c*) The bank adds $2000 to its surplus and distributes a dividend of 2 per cent; stockholders take half of the dividend in cash and leave half on deposit with the bank.

(*d*) Loans of $25,000 mature and are paid, — $5000 in specie, $5000 in notes of this bank, and the balance in checks drawn against deposits in this bank.

(*e*) A "run" occurs against the bank. To strengthen its reserve, the bank sells one half its bonds and stocks for cash at a sacrifice of 5 per cent. The "run" comes to an end after $50,000 of deposits have been withdrawn in money, and $10,000 in the bank's notes presented for redemption.

Draw up a statement showing the condition of this bank after the series of operations has been completed.

**25.** 2. What is a bank reserve? Why should it be maintained? How should you measure the strength of a reserve?

What considerations induce a bank (*a*) to diminish its reserve? (*b*) to increase it? By what means may a bank increase its reserve?

**25.** 3. "It is natural to think of a bank's loans as being the children of its deposits. But it is at least as true to think of the deposits as being the children of its loans."

In what sense is each statement accurate?

**25.** 4. What is to be said for and against the combination of commercial and investment banking? How extensively are the two combined to-day?

**25.** 5. What are demand loans? Why do they play so important a part in commercial banking? Why do the rates on demand loans fluctuate more widely than on time loans? Should the use of demand loans be restricted?

**25.** 6. Suppose a large increase in the quantity of specie held by the commercial banks. How would this tend to affect (*a*) the rate of bank discount? (*b*) the volume of deposit currency? (*c*) the value of money (as the commercial world uses the phrase)? (*d*) the value of money (as the economist uses the phrase)?

**25.** 7. What part, if any, do commercial banks play in (*a*) the process of investment? (*b*) the increase of capital? (*c*) the course of industrial development? (*d*) leadership in the business world? In what respects may the influence of commercial banks be undesirable?

## CENTRALIZED BANKING SYSTEMS

**26.** 1. For what reasons has government regulation of bank note issue been necessary? What are the chief types of regulation? How do you account for the difference in type prevailing in different countries?

**26.** 2. Compare the central banks of France, England, and Germany with respect to

(*a*) organization and management;
(*b*) branches;
(*c*) nature and extent of government control;
(*d*) monopoly of note issue;
(*e*) limitation of note issue;
(*f*) elasticity of note issue;
(*g*) security for notes issued;
(*h*) deposit business;
(*i*) size and composition of reserve;
(*j*) operations other than deposit and issue;
(*k*) relation to other banks.

**26.** 3. What action is taken by the Bank of England when a crisis threatens?

## THE BANKING SYSTEM OF THE UNITED STATES

**27.** 1. Describe the national bank system as it stood in 1913, with respect to (*a*) note issue; (*b*) reserve requirements. Wherein had the system proved satisfactory?

**27.** 2. What specific defects in the national bank system was the Federal Reserve Act of 1913 designed to remedy? What measures were adopted to this end?

**27.** 3. What legal regulations respecting reserves against deposits in national banks exist at present?

To what extent are such provisions found in other countries? To what extent and for what reasons are they desirable? unnecessary?

**27.** 4. Describe the organization of a Federal Reserve Bank. What are its chief functions?

**27.** 5. For what different types of notes is provision made under the Federal Reserve Act? What regulations govern the issue of each? What is their relative importance? What purposes are served by each?

**27.** 6. What requirements does the Federal Reserve Act establish for reserves of Federal Reserve Banks against (*a*) their deposits? (*b*) Federal Reserve Notes?

**27.** 7. Did the establishment of the Federal Reserve Banks increase or decrease the legal lending power of the banks in the United States?

**27.** 8. What is the Federal Reserve Board, and what are its principal powers?

**27.** 9. What are the outstanding characteristics of the present banking system of the United States?

## SOME PROBLEMS OF LEGISLATION ON BANKING

**28.** 1. In what respects are bank notes and deposits essentially alike? different?

**28.** 2. Why should special security be accorded to note holders? In what forms is this special security provided by the various governments?

**28.** 3. By what different requirements may excessive issue of bank notes be prevented?

**28.** 4. What may be said for and against the following measures for protecting depositors: (*a*) restricting the kind of business the bank may undertake; (*b*) limiting loans made to particular individuals; (*c*) frequent government inspection; (*d*) insurance of deposits; (*e*) legal minimum reserves against deposits?

**28.** 5. What is meant by elasticity of currency? Why is it desirable that a currency be elastic? What forms of currency in the United States are elastic?

**28.** 6. "Deposits are ideally elastic." Explain. Under what circumstances might this not be the case?

**28.** 7. What are the advantages and disadvantages of (*a*) a centralized note issue? (*b*) a central bank? Would the establishment of a central bank in the United States be desirable?

## CRISES AND INDUSTRIAL DEPRESSIONS

**29.** 1. Make a chronological table of industrial crises noting the geographical extent of each and the degree of periodicity apparent.

**29.** 2. What are the phases of a typical business cycle? Sketch the significant features of each phase.

**29.** 3. What have been assigned as fundamental causes of industrial crises?

**29.** 4. Why should crises occur most frequently in countries industrially most highly developed?

Should you expect crises to occur more frequently in the United States in the future than in the past? to be more acute?

**29.** 5. In what different ways is the course of the business cycle influenced by the temper of the business class?

**29.** 6. Explain the parts played in the course of industrial crises and depressions by (*a*) distributing middlemen; (*b*) financial middlemen; (*c*) the accumulation of fresh savings; (*d*) extensive crop failures; (*e*) an increasing gold supply; (*f*) the failure of an important industrial incorporation; (*g*) an extension of government interference with the conduct of business.

**29.** 7. "The period of depression is often a healthy one." Wherein? Is the period of expansion often an unhealthy one?

## FINANCIAL PANICS

**30.** 1. Distinguish the financial panic from the industrial crisis.

Can there be an industrial crisis without a financial panic? a financial panic without an industrial crisis? Is the crisis more severe if accompanied by a financial panic?

**30.** 2. In time of panic is there less *money* than usual in the country? in the banks? in circulation?

Is there an unusually large demand for *money?*

**30.** 3. "In times of panic, the only sound policy for banks . . . is to lend freely." Why? Why is this policy difficult to pursue? Is such a policy desirable "when the storm is brewing"?

**30.** 4. What means should be employed to prevent the development of an incipient panic when a single bank is beset by a run? Are the same means available when distrust of the banks becomes general? If not, why not? If so, under what conditions?

**30.** 5. What lending policy has been generally pursued by banks in the United States (*a*) when a panic has threatened? (*b*) after a panic has been precipitated? Why?

**30.** 6. Why has an "emergency currency" been needed in time of panic in the United States? How has it been provided, for what special purpose, and with what success?

Will it be similarly needed and provided in the future?

**30.** 7. "Panics are bad in themselves, and bad in their after effects." Why? Can a similar statement be made as to crises?

**30.** 8. To what extent and by what means can financial panics be prevented?

**30.** 9. What are the major evils of the industrial crisis and depression? By what means may these evils be alleviated? What is the prospect of their entire disappearance?

## THE THEORY OF PRICES ONCE MORE

**31. 1.** In what forms may credit be extended?

Under what circumstances does the use of credit dispense with the use of money? Under what circumstances does it not?

**31. 2.** How is the volume of deposits related to (*a*) the volume of transactions? (*b*) the quantity of money in circulation? (*c*) the amount of reserve money held by the banks?

**31. 3.** How do the following tend to affect the quantity of "purchasing power in terms of money": (*a*) an increase of charge accounts; (*b*) money hoarding; (*c*) a limited issue of convertible government paper money; (*d*) an increased use of deposit accounts in commercial banks; (*e*) a change in the temper of the business community; (*f*) the establishment of a stock exchange clearing-house; (*g*) an increased output of gold; (*h*) an increased output of silver?

**31. 4.** How would a decrease in "inactive" deposit accounts influence the total purchasing power? the price level?

**31. 5.** What factors determine the proportion of bank deposits and notes to reserve money?

**31. 6.** The per capita stock of money in 1910 in various countries was estimated as follows:

| | |
|---|---|
| France | $37.85 |
| United States | 35.21 |
| Canada | 29.05 |
| British Isles | 17.74 |
| Germany | 12.76 |
| Russia | 6.36 |
| Japan | 3.73 |

What, if anything, does this indicate as to (*a*) the per capita wealth? (*b*) the average of well-being? (*c*) the habits of the population?

What factors determine the amount of money per capita?

**31.** 7. By what process, if at all, should you expect the following to influence the general price level in the United States: (*a*) advertising; (*b*) the growth of the trusts; (*c*) increasing demands of trade-unions; (*d*) extravagant purchases of automobiles; (*e*) increased output from South African gold mines; (*f*) wider use of deposit accounts in France?

**31.** 8. What factors are primarily responsible for the great rise in prices in the United States since 1897?

**31.** 9. Wherein do modern currency systems fall notably short of perfection?

**31.** 10. What means have been proposed for stabilizing the price level? What obstacles stand in the way of their success?

**31.** 11. Define: "money"; "currency"; "cash"; "specie."

## THE FOREIGN EXCHANGES

**32.** 1. What is a bill of exchange? By whom and on whom is it drawn, and to whom is it payable?

Illustrate its use in the purchase of £1000 of cotton goods from J. B. & Co. of Manchester, England, by U. S. & Co. of New York City.

**32.** 2. Suppose that a New York importer can get 50 gross of Sheffield razors delivered in New York for 44*d.* each (the duty included), and that he can sell them for 95¢ each. What would be his profit on such a transaction if the rate of exchange on London were $4.84? if the rate were $4.87? (T.)

**32.** 3. What is meant by "par of exchange"?

Find the par of exchange (expressed in terms of francs to one dollar) between New York and Paris, given the fine gold content of the dollar as 23.22 grains and that of the franc as 4.48 grains. Would a rate of 5.20 indicate a premium or discount? a tendency toward gold export or import?

**32.** 4. What determines how widely the rate of sterling exchange may fluctuate? How has the range of fluctuation been affected by the general European war?

**32.** 5. Who are the "dealers" in bills of exchange? Are they productive laborers?

**32.** 6. How is the rate of sterling exchange settled at any given time? Would rates be different if there were no "dealers" in foreign exchange? What special factors influence the rate on "bankers' bills"? on "time bills"?

**32.** 7. A New York company sells a large shipment of oil to a railroad company in India. How might payment be effected through London?

**32.** 8. "The flow of specie sets in motion forces which

sooner or later stop the flow." What are these forces? How do they accomplish this result?

How does a rise in the rate of bank discount in London affect the flow of specie?

**32.** 9. What determines the par of exchange between (*a*) two gold standard countries? (*b*) a gold standard and a silver standard country? (*c*) a gold standard country and one upon a depreciated paper standard?

**32.** 10. In what respects is domestic exchange essentially like foreign exchange? different?

## THE BALANCE OF INTERNATIONAL PAYMENTS

**33.** 1. List the kinds of transactions which give rise to payments (*a*) by persons in the United States to persons in England; (*b*) by persons in England to persons in the United States.

**33.** 2. How is the rate of sterling exchange in New York affected (*a*) immediately, (*b*) in the long run, by large purchases of American securities by English investors?

How is the American balance of trade affected?

**33.** 3. How should you expect the rate of sterling exchange in New York to be affected by (*a*) a financial panic in New York City? (*b*) a failure of the American wheat crop? (*c*) the rapid development of an American merchant marine? (*d*) a great increase in American gold output? (*e*) increased purchases of coffee from Brazil? (*f*) the general European war?

**33.** 4. The establishment of a postal savings system in the United States is expected to bring about a diminution in the remittances made to foreign countries by those who have recently immigrated to this country. Would such a change be to the advantage of the United States? If so, wherein? If not, why not?

**33.** 5. "These balance-of-trade reports show . . . that we have had no real prosperity in this country for about six years. The balance of trade has been against us. As a nation we have been spending more than we have been earning. For three years in succession we have been paying off this debit account by sending abroad an immense amount in gold bullion. If we keep that up we will 'go broke.' We must see to it that more money comes in than goes out or Uncle Sam will go into the hands of a receiver."

What have you to say regarding these statements and their implications?

**33.** 6. "Hundreds of millions of dollars are taken away from the United States each year by tourists, by returning immigrants, and to pay interest and dividends on our securities held abroad. How can a nation, any more than an individual, grow rich if it keeps on paying out more money than it takes in?"

Criticize.

**33.** 7. Suppose the people of one country to lend, through a long period, large sums annually to the people of another country. Trace the effects in the lending country, immediate and ultimate, on (*a*) the flow of specie; (*b*) merchandise imports and exports; (*c*) the price of foreign exchange.

Should you expect such a lending country to have a "favorable" or an "unfavorable" balance of trade?

## THE THEORY OF INTERNATIONAL TRADE. WHY GOODS ARE EXPORTED AND IMPORTED

**34.** 1. "A country exports the things which are low in price within its borders." Does the United States export crushed stone, fresh vegetables, hay, copper? What implications are involved in the quoted statement?

**34.** 2. What are the principal factors which lead to the export of (*a*) cotton from the United States? (*b*) cotton goods from England? (*c*) toys from Germany? (*d*) tea from China? (*e*) agricultural implements from the United States?

**34.** 3. Under what circumstances, if any, can a commodity produced with labor paid high money wages be profitably exported to a country in which the same commodity is produced with labor receiving low money wages?

**34.** 4. "We need not fear labor competition with Christendom. The readjustment would involve some temporary hardship, but it would be only temporary. But to compete with the wages paid in India, China, and Japan would be impossible. In some cases American wages would fall; in other cases American manufactories would cease. Wages at three or four dollars a day could not be long kept up in competition with wages at twenty-five, fifty, or even seventy-five cents a day. Oriental wages would rise a little; American wages would fall a great deal."

Criticize.

**34.** 5. Can a country advantageously import a commodity in producing which its labor is more effective than labor is in producing that commodity in the country whence it is imported?

**34.** 6. "It appears to me that all labor done directly and indirectly in carrying articles to the place of consumption which could have been produced in sufficient abundance, with as little

labor, at the place of consumption as at the place they were carried from, is useless labor." — Lincoln's *Complete Works*, i. 92.

Criticize.

**34.** 7. How should you state "the principle of comparative cost"?

**34.** 8. To what extent, if any, would international trade continue if labor were everywhere perfectly mobile?

**34.** 9. Under what conditions may it be profitable to produce domestically a part, and to import a part, of a supply of a commodity? In what industries is such a division of the field most likely to persist?

## THE THEORY OF INTERNATIONAL TRADE. WHEREIN THE GAIN CONSISTS

**35.** 1. Do countries participating in international trade share equally in its gains? Does a country ever lose by participation in international trade?

**35.** 2. How is the partition of gains from international trade affected by (*a*) the nature of the demand for the articles traded? (*b*) changes in the amount of other payments than those for merchandise? (*c*) the appearance of a new article of export? (*d*) differences in money incomes? (*e*) the effectiveness of labor in producing exported commodities?

**35.** 3. Show under what conditions the following may be true: "We may often, by trading with foreigners, obtain their commodities at a smaller expense of labor and capital than they cost to the foreigners themselves." (N.)

**35.** 4. "International trade is virtually a mode of cheapening production." Explain.

**35.** 5. Is the United States a country of peculiarly high money incomes? of peculiarly high prices?

In a country of high money incomes, which commodities will be at a relatively high price, which at a relatively low price?

## PROTECTION AND FREE TRADE. THE CASE FOR FREE TRADE

**36.** 1. "The internal commerce of the United States is the best possible argument for free trade." Explain.

**36.** 2. "When we buy manufactured goods abroad, we get the goods and the foreigner gets the money. When we buy the manufactured goods at home, we get both the goods and the money."

Criticize.

**36.** 3. In what manner and through what process does the imposition of a protective tariff on manufactures tend to affect (*a*) truck farmers? (*b*) other farmers? (*c*) the extent of employment?

**36.** 4. "There is no real excuse for buying printing outside of Atlanta. Aside from patriotic motives of loyalty to Atlanta's industries, the business men of the city have a narrow view of the subject if they think they can gain by sending printing orders away. The removal of $500,000 cash each year from this city represents an actual loss, because there is no exchange of trade on the part of Eastern and Western printers with Atlanta's stores and factories. . . . The vital point is: If Atlanta business men have all their printing done in Atlanta 500 more workmen would be needed by local printing plants to turn out the work; 500 extra employees in the printing trades would spend their wages of $400,000 with Atlanta firms."

Criticize.

**36.** 5. If the United States should abandon the policy of protection, how would real wages be affected?

**36.** 6. "The principle of protection is to build up our home industries by manufacturing our own products. This gives our people employment, keeps the money in the country, and makes this country an independent and self-reliant nation."

Wherein, if at all, are these statements inaccurate or misleading? Wherein, if at all, correct?

**36.** 7. "The great advantage of foreign trade is in furnishing a market for our surplus products which would otherwise go to waste."

Criticize.

**36.** 8. "If it costs 10 cents to produce a razor in Germany and 20 cents in the United States, it will require 100 per cent duty to equalize the conditions in the two countries. . . . And so far as I am concerned, . . . if it was necessary to equalize the conditions to give the American producer a fair chance for competition, I would vote for 300 per cent as cheerfully as I would for 50 per cent."

Is this position a reasonable one?

**36.** 9. What is to be said for and what against the policy of imposing duties (*a*) just sufficient to equalize differences in labor expense between the United States and foreign countries? (*b*) more than sufficient to equalize these differences? (*c*) less than sufficient?

**36.** 10. For what group of laborers, if any, can it be maintained that (*a*) protective duties tend to make their real wages lower? (*b*) protective duties tend to keep their real wages high? (*c*) protective duties tend to make their real wages higher?

**36.** 11. Under what circumstances may the imposition of a protective duty result in raising the price of the dutiable article (*a*) by the amount of the duty? (*b*) by less than the amount of the duty? Under what circumstances, if any, may it leave the price undisturbed?

**36.** 12. Can a customs duty be highly protective to industry and at the same time highly productive of government revenue?

**36.** 13. Is the tariff "the mother of trusts"?

**36.** 14. Does protection necessitate the imposition of customs duties? Does free trade imply a total absence of customs duties? What is meant by "a tariff for revenue only"?

## PROTECTION AND FREE TRADE. SOME ARGUMENTS FOR PROTECTION

**37.** 1. "Protective duties, by their effects on general money incomes, may bring more advantageous terms of international exchange." How?

**37.** 2. What is the principle of protection to young industries? What economic conditions warrant such protection? What is the present importance of the principle in the United States?

**37.** 3. What is the case for and against direct ship subsidies in the United States?

**37.** 4. On what grounds has diversification of industry been considered politically and socially desirable? May protective tariffs be important agencies for promoting such diversification?

**37.** 5. What special arguments are there for and against a policy of protection for England to-day?

**37.** 6. How do you explain the trend of tariff policy since 1870?

**37.** 7. What has been the effect of the protective tariff in the United States since the Civil War upon (*a*) the course of industry? (*b*) government finance? (*c*) the prosperity of the country?

**37.** 8. What difficulties are involved in reducing or abolishing protective duties?

**37.** 9. In what way does the protective tariff figure in American political life? In what respects is its influence objectionable? wholesome?

## INTEREST ON CAPITAL USED IN PRODUCTION. THE CONDITIONS OF DEMAND

**38.** 1. Contrast the interpretations given to (*a*) "distribution," (*b*) "money," (*c*) "capital," (*d*) "interest," by (1) business men and (2) economists.

**38.** 2. How far, if at all, is the income derived from the following to be called interest: an apartment block; a pawnbroker's loan; a United States 2-per-cent bond; a Pennsylvania Railroad bond; a piano; an automobile truck?

**38.** 3. Where, in the financial columns of a current newspaper, is the prevailing rate of interest in the economic sense to be found?

**38.** 4. Would doubling the supply of money lower the rate of interest? Would it lower the rate of bank discount?

**38.** 5. Might interest arise if there were no money? if there were no capital?

**38.** 6. "Production with capital has been aptly described . . . as indirect or roundabout production." Explain.

**38.** 7. "The laborers as a whole produce more than they receive." Do you agree? If so, does the statement necessarily imply social injustice?

**38.** 8. In what sense is capital productive? Are idle owners of capital productive?

**38.** 9. How should you expect the demand for capital to be affected by (*a*) the discovery of a large supply of cheap fuel? (*b*) a rigid restriction of immigration, *e.g.* by a literacy test? (*c*) the general European war?

**38.** 10. What is meant by "the marginal productivity of capital"?

**38.** 11. Is there a general tendency to diminishing returns from successive doses of capital?

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## INTEREST. THE EQUILIBRIUM OF DEMAND AND SUPPLY

**39.** 1. Enumerate the motives which impel saving.

**39.** 2. Under what circumstances are present goods valued more highly than future goods of like kind? valued less highly?

**39.** 3. What determines how much more highly the present goods will ordinarily be valued? Would the "premium" on present goods be large or small in the following cases: a miser; a savage; a millionaire; a spendthrift; a Mexican business man; a day laborer with a large family?

**39.** 4. Draw up a "supply schedule" showing the amounts you would save at various rates of interest (*a*) with your present income; (*b*) with an income of $25,000 a year. Draw the corresponding supply curve.

**39.** 5. Who are "spontaneous savers"? Who save the "marginal savings"?

**39.** 6. "Interest is the price paid for the use of savings." Explain diagrammatically the determination of this price.

**39.** 7. Illustrate by diagram: (*a*) "negative interest"; (*b*) "extra-marginal savings"; (*c*) "savers' surplus"; (*d*) how a drop in the rate of interest affects savings.

**39.** 8. How much has the rate of interest fluctuated since the Industrial Revolution? Why has it not fluctuated more? What is the probable future course of the rate of interest?

## INTEREST (*Further Considered*)

**40.** 1. What are the sources of the demand for savings? What is their relative importance?

**40.** 2. How, if at all, would the following tend to affect the demand for savings, the supply of savings, and the rate of interest: (*a*) an increasing supply of money; (*b*) increasing extravagance in private life; (*c*) a general European war; (*d*) equalization of money incomes?

**40.** 3. Are durable consumers' goods capital, — always? ever? Does the demand for them constitute a demand for savings? Does the repair and replacement of them?

**40.** 4. Enumerate: (*a*) the factors which make the nominal rate of interest differ from the true rate; (*b*) the factors which make the true rate different at different times; (*c*) the factors which make the true rate different in different countries at the same time.

**40.** 5. "I am willing to concede that interest ought to be paid to a man who saves out of a small income by self-denial, but I have no patience with the paying of interest to a capitalist whose accumulations have cost him no sacrifice." (T.)

Do you agree? Can a distinction between the two be practicably made?

**40.** 6. What is to be said for and against (*a*) the prohibition of the taking of interest? (*b*) legal limitations on the rate of interest?

## OVERPRODUCTION AND OVERINVESTMENT

**41.** 1. "Overproduction may mean various things." What things?

**41.** 2. Should "accumulation and investment go on by leaps and bounds," how would the following be affected: (*a*) purchases of plant and machinery; (*b*) luxurious expenditure; (*c*) prices of consumers' goods; (*d*) the return on capital?

**41.** 3. How does overinvestment in particular industries bring its own remedy? How does a tendency toward overaccumulation?

**41.** 4. What is Rodbertus' theory of crises?

**41.** 5. To what extent is saving and investment almost automatic? What are the resultant dangers? How are these to be avoided?

**41.** 6. What are the characteristics of industries which are most liable to overproduction?

## RENT, AGRICULTURE, LAND TENURE

**42.** 1. Which of the following statements, if any, should you accept?

(*a*) "Rent is the specific product of land."

(*b*) "Rent is producers' surplus with special reference to land."

(*c*) "Rent is the price paid for the use of a durable good."

(*d*) "Rent is the value of the use of natural resources."

**42.** 2. What is the distinction between "commercial rental" and "economic rent"?

Under what circumstances, if any, will the commercial rental exceed the economic rent? the economic rent exceed the commercial rental?

**42.** 3. Corn is produced on the hills of New Hampshire and the prairies of Iowa. What differences, if any, should you expect in the two places in (*a*) the price of corn of the same quality? (*b*) the cost of producing such corn? (*c*) the rents paid for the land employed in the cultivation of the corn?

**42.** 4. What differences between different plots of land are significant in the determination of economic rent?

**42.** 5. State the principle of diminishing returns. Does it apply to lands used for other purposes than agriculture?

**42.** 6. Suppose all the land of a country to be arranged in order of increasing fertility in concentric circles about a market. Suppose the differences in fertility to be offset exactly by the cost of transportation to the market. Would there be rent? If so, under what conditions? If not, why not?

**42.** 7. Would there be economic rent (*a*) if there were no tendency toward diminishing returns? (*b*) if the government owned all the land? (*c*) if land were always utilized by the

owners? (*d*) if the supply of better land were practically unlimited?

**42.** 8. Explain "margin of cultivation." Distinguish (*a*) the intensive and extensive margins; (*b*) the point of diminishing returns and the margin of cultivation.

**42.** 9. How will the amount of labor and capital applied at the intensive margin and the kind of land cultivated at the extensive margin, be affected by (*a*) increasing population? (*b*) improvements in transportation? (*c*) the discovery of a cheap fertilizer?

**42.** 10. Explain: intensive cultivation; extensive cultivation; predatory cultivation.

Is extensive cultivation necessarily predatory? Is predatory cultivation necessarily wasteful?

**42.** 11. What are the principal forms of land tenure? What are their comparative merits?

**42.** 12. What considerations bear upon the proposal to confiscate for the benefit of the community (*a*) the economic rent of agricultural land? (*b*) future accretions of this rent?

## URBAN SITE RENT

**43.** 1. What are the causes of differences in the advantages of different city sites for (*a*) retail trading? (*b*) wholesale trading? (*c*) manufacturing? (*d*) residence purposes?

**43.** 2. "Our prices are low because we do not have to pay high rent." "The prices of the commodities sold on the more expensive sites are not higher." Can you reconcile these two statements? If so, how? If not, which is correct, and why?

**43.** 3. "The effect of high prices for land and high rents is apparent. Industries will be slow to locate in Pittsburgh if rents and prices of land are higher than in other cities. A higher rent or interest on higher-price of land bought for building, will be a constant added charge on cost of operation. Consequently industries will tend to shun a city where this higher cost is incurred."

Do you think this consequence will ensue?

**43.** 4. In the utilization of urban sites does the tendency to diminishing returns appear? Does the intensive margin appear? Does the extensive margin?

**43.** 5. To what extent is the return upon the following rent, to what extent interest: (*a*) "made land"; (*b*) residence sites greatly improved by a real estate development company; (*c*) a permanent drainage system on a farm; (*d*) a golf links?

**43.** 6. How far is "ground rent" identical with economic rent?

**43.** 7. An enterprising merchant takes a fifty-year lease at a moderate rental on an urban site in a district not largely devoted to retailing, believing it can be made an important retail center. He builds a large store, advertises assiduously, and attracts a large and highly profitable custom. Other

dealers are attracted to the district, and rents and land values rise greatly.

Has the economic rent increased (*a*) on his site? (*b*) on neighboring sites? In each case is the increase in land values earned or unearned? If earned, by whom?

## RENT (*Concluded*)

**44.** 1. What different elements of cost must be covered by the returns from mines?

**44.** 2. How does the tendency toward diminishing returns appear in mining?

**44.** 3. To what extent are mining royalties economic rent?

**44.** 4. The annual rental of a piece of farm land is $250. Taxes on the piece amount to $75 yearly. If the current rate of interest on investments of the same security is 5 per cent, what is the value of the piece?

How and why might the value be affected by the proximity of a rapidly growing city?

**44.** 5. The rentals from a New York office building amount to $50,000 a year. The building is now worth $200,000. To provide for insurance, depreciation, taxes, and such fixed items, $10,000 is required annually. What is the value of the land if the current rate of interest upon investments of equal security is 5 per cent? 4 per cent? 6 per cent?

**44.** 6. How should you expect a permanent fall in the interest rate ultimately to affect (*a*) the value of an urban site? (*b*) the rentals of an office building on the site? (*c*) the value of the building?

**44.** 7. What is meant by the "unearned increment"? Why may its appropriation by the state be urged more strongly in the case of urban land than in the case of agricultural land?

**44.** 8. In the case of urban sites, what are the arguments for and against state appropriation of (*a*) all economic rent? (*b*) all future increases of economic rent? (*c*) part of future increases of economic rent?

**44.** 9. "Increment taxes levied on capital value tend to defeat themselves." Explain. What is the best mode of levying such taxes?

## MONOPOLY GAINS

**45.** 1. Wherein are land rents and monopoly gains alike? wherein different?

**45.** 2. Make a classification of monopolies, giving illustrations of each variety.

**45.** 3. What is a "public service industry"? For what reasons is monopoly in such industries virtually inevitable?

**45.** 4. The Welsbach burner was, through a patent, a source of large monopoly gains. Were these gains socially justifiable?

Should you say the same of enhanced profits received by a public service company as a result of the growth of the community?

**45.** 5. Indicate some of the considerations involved in determining the fair selling value of a public service property.

**45.** 6. "Vested interests present questions of the same sort in the case of monopolies as in the case of land." What are these questions?

## THE NATURE AND DEFINITION OF CAPITAL

**46.** 1. "The income from concrete instruments of production may be regarded as 'rent' or as 'interest,' according to the point of view." Explain.

**46.** 2. In what different ways may the amount of capital be measured?

**46.** 3. From what different viewpoints have the distinctions between interest, rent, and monopoly gains been discarded?

**46.** 4. On what grounds does the retention of the distinction between land and capital seem advisable?

## DIFFERENCES OF WAGES. SOCIAL STRATIFICATION

**47.** 1. Enumerate the causes which give rise to "equalizing differences" in wages.

**47.** 2. Define "real differences" of wages. What are the causes of such differences? Are they persistent?

**47.** 3. Distinguish the two ways in which expense of training affects wages.

**47.** 4. Which should you expect to be the more highly paid, and why: (*a*) a street car conductor or a motorman; (*b*) a surface car motorman or a subway motorman; (*c*) a day school teacher or a boarding school teacher; (*d*) a trained nurse or a stenographer; (*e*) a steeple jack or a house painter; (*f*) a cotton factory operative or a department store clerk?

**47.** 5. To what is social stratification due? How far do existing social strata reflect differences in inborn ability?

**47.** 6. What is meant by mobility of labor? What forces promote, what forces restrict the mobility of labor?

**47.** 7. How are wages in the lowest group affected by (*a*) unrestricted immigration? (*b*) free public school education? (*c*) immobility of labor?

**47.** 8. What differences of wages would persist if labor were perfectly mobile? Is perfect mobility of labor desirable?

**47.** 9. Are the differences between men's wages and women's wages "equalizing" or "real"? Are these differences removable? socially objectionable?

**47.** 10. Is the employment of women in gainful occupations advantageous to society?

## WAGES AND VALUE

**48.** 1. Do "expenses of production" now measure "cost of production"? Why or why not? Would the situation be different if there were perfect mobility of labor?

**48.** 2. "Labor of any kind has a derived utility." Explain.

**48.** 3. What is meant by the marginal efficiency of a group of laborers? How is it related to the rates of wages received by the group?

**48.** 4. How does immigration from Europe to the United States tend to affect (*a*) the marginal productivity of labor in the United States? (*b*) the productivity of the world's labor supply?

**48.** 5. Under what circumstances will the expenses of production determine the value of the product? Under what circumstances will the value of the product determine the expenses of production?

**48.** 6. "The exchanges between different countries are analogous to the exchanges between non-competing groups within a country." Explain.

## BUSINESS PROFITS

**49.** 1. To what extent, if at all, do the following receive business profits: a dentist; a popcorn vendor; a real estate speculator; a successful inventor; a salaried manager; a consulting engineer; a holder of a railroad bond; an idle owner of a share of stock?

**49.** 2. A business firm is made up of three partners, A and B, active partners, and C, an inactive (or silent) partner. The firm has $150,000 capital contributed in equal shares by the three partners. Its articles of agreement provide that the net earnings shall be divided as follows: first, a dividend of 6 per cent on the capital; second, if net earnings permit, a salary of $4000 to each of the active partners; lastly, any remainder to be distributed as further dividend on the capital. The firm's net earnings in 1908 were $23,000. What were the "business profits" of the firm?

**49.** 3. Distinguish the various kinds of risks assumed by business men. Are business profits essentially a reward for the assumption of risk?

What risks, if any, are taken by laborers? Do they get business profits?

**49.** 4. To what extent do the following determine the success of business men: (*a*) chance; (*b*) education; (*c*) exceptional native ability; (*d*) mechanical talent; (*e*) "capital and connection"?

**49.** 5. What are the motives which impel business activity? What qualities are requisite for success?

**49.** 6. How would the following be affected if capable business men were much more plentiful than they are: (*a*) the social income; (*b*) wages of laborers; (*c*) business profits; (*d*) social stratification?

**49.** 7. Should you expect business profits to constitute an increasing or a decreasing proportion of the total social income?

## BUSINESS PROFITS (*Continued*)

**50.** 1. Do business profits consist in whole or in part of interest? rent? wages?

In what sense is the business man properly termed the "residual claimant" in the distribution of wealth?

**50.** 2. In what respects are rent and business profits alike? In what respects different?

If all men were equal in ability, and opportunities were the same for all, would there be business profits?

**50.** 3. "A capable business man who happens to own an advantageous site gets two sorts of rent." Explain.

What should you expect to be the result if the same form of taxation were applied to both?

**50.** 4. Is the representative firm necessarily a new firm? an old firm? a large firm? a small firm? Is it the average firm?

Define "representative firm."

**50.** 5. If business profits rise, how will the interest rate be affected? If the rate of interest rises, how will business profits be affected?

**50.** 6. To what extent in actual business are business profits connected with (*a*) a large command of capital? (*b*) illegitimate business practices?

**50.** 7. What determines whether business profits are legitimate or illegitimate? What forces are necessary to restrict business profits within legitimate limits?

## GENERAL WAGES

**51.** 1. Compare the effects upon wages of extensive saving and lavish expenditure. When lavish expenditures are suddenly curtailed and the savings invested, what laborers, if any, are injured? benefited?

**51.** 2. Can saving be carried to excess? If not, why not? If so, what conditions would disclose the excess?

**51.** 3. Are the laborers in the building trades of a city benefited by (*a*) a great conflagration in the city? (*b*) the regular occurrence of small fires?

How, if at all, are the effects different for the laboring class as a whole?

**51.** 4. "'My lord,' said the shipbuilder to Lord Dundonald, 'we live by repairing ships, as well as by building them, and the worm is our best friend. Rather than use your preparation [to protect the bottoms of ships of war], I would cover ships' bottoms with honey to attract worms.'"

What have you to say of the shipbuilder's position?

**51.** 5. What is the immediate effect, what the ultimate effect, of the introduction of labor-saving appliances (*a*) upon the laborers in the industry directly concerned? (*b*) upon laborers in other industries?

**51.** 6. "The inevitable attitude of the hired workman is to favor arrangements that seem to make work and to oppose those that seem to lessen work." Why? Why should this attitude be thought "inevitable"?

**51.** 7. What is meant by (*a*) "the specific product of labor"? (*b*) "the marginal product of labor"? (*c*) "the discounted marginal product of labor"?

**51.** 8. "Increased efficiency increases the supply of labor and thus tends to lower wages under a demand and supply

doctrine." "Increased efficiency increases the marginal productivity of labor and thus causes wages to rise." Which is correct and why? (T.)

**51.** 9. To what cause or causes should you ascribe the high level of real wages in the United States?

**51.** 10. "With the increasing complexity of production interest tends to be a larger part, wages a smaller part, of the total income of society." Why? Does it follow that wage rates become lower and interest rates higher?

**51.** 11. In what direction and by what processes should you expect general wages in the United States to be affected by (*a*) increasing willingness to save? (*b*) increasing ability among business men? (*c*) an extension of industrial education? (*d*) the adoption of a literacy test for immigrants? (*e*) increasing limitation of output by trade-unions? (*f*) adoption of equal suffrage?

**51.** 12. "Economically it is for the interest of every class of producers to see the efficiency of other classes of producers increase." Why? (T.)

**51.** 13. Enumerate the most effective means by which general wages might be raised.

## POPULATION

**52.** 1. Under what circumstances, if any, might the supply of labor increase, population remaining the same?

**52.** 2. Is the supply of labor elastic, *i.e.* does it respond to increases and decreases in demand (*a*) immediately? (*b*) in the long run?

Does an increase of wage rates ever cause (*a*) an increased willingness to work? (*b*) a decreased willingness to work?

**52.** 3. What did Malthus mean by the "tendency" of population to outstrip subsistence? Does this tendency exist to-day in the United States?

**52.** 4. What is meant by "preventive check"? "positive check"? "birth rate"? "death rate"? How, if at all, are these checks and rates connected?

**52.** 5. Is the same standard of living necessarily maintained by two men receiving equal wages? by two men expending equal amounts? Would your answer differ if one man supports a family, and the other does not?

Define "standard of living."

**52.** 6. How, if at all, are standards of living affected by wages? wages by standards of living?

## POPULATION (*Concluded*)

**53.** 1. What is the connection between (*a*) the standard of living and birth rates? (*b*) birth rates and the supply of labor? (*c*) the labor supply and the marginal productivity of labor? (*d*) the marginal productivity of labor and wages?

**53.** 2. "I cannot understand the stress laid by economists on the necessity of checking the growth of population. Every person born into the world brings with him not only a need for goods, but also the power to produce these goods." Comment. (T.)

**53.** 3. What is "over-population"? "under-population"?

**53.** 4. How is the general decline in the birth rate to be explained? the general decline in the death rate? Are the two equally signs of social progress?

**53.** 5.

| Country | Birth Rate | Death Rate |
|---|---|---|
| A . . . . . | 35 | 25 |
| B . . . . . | 40 | 35 |
| C . . . . . | 18 | 19 |
| D . . . . . | 25 | 30 |

What inferences as to social conditions in the various countries can you draw from the above statistics? Would your answer differ if you knew that many inhabitants from D had been emigrating to A?

**53.** 6. Of recent years deaths in France have been as numerous as births. Is this socially undesirable?

## INEQUALITY AND ITS CAUSES

**54.** 1. On what different bases has the distribution of property and income been estimated? Can you suggest any not mentioned in the text?

**54.** 2. "The poorest class is the most numerous." Does the evidence support this statement?

**54.** 3. "The rich are becoming richer and the poor poorer." Is this true?

**54.** 4. How far, if at all, are existing inequalities of wealth and income attributable (*a*) to inborn differences? (*b*) to social institutions?

**54.** 5. Upon what grounds, if any, are the following to be condemned or justified: (*a*) the right of inheritance; (*b*) the institution of private property; (*c*) the leisure class?

**54.** 6. What has been meant by "a natural right"? What is the foundation for individual rights?

**54.** 7. What are "vested interests"? When, if at all, should they be respected?

**54.** 8. If the competitive system is retained, is inequality likely to increase? to decrease?

## TRADE-UNIONS

**55.** 1. Why is trade-unionism a comparatively recent movement? Are the conditions which have fostered it likely to become less or more pronounced?

**55.** 2. Are the interests of "labor" and "capital" fundamentally opposed?

**55.** 3. In what respects is the single laborer at a disadvantage in bargaining with an employer? What advantages in bargaining accrue to the laborer through collective action?

**55.** 4. Why do trade-unions flourish in some industries and not in others? Is their absence in a particular industry evidence that collective bargaining is undesirable in that industry?

**55.** 5. To what extent and by what means can trade-unions influence (*a*) the wages paid in a given occupation? (*b*) the general level of wages?

**55.** 6. Give the arguments (*a*) from the viewpoint of the trade-unionist, (*b*) from the viewpoint of the economist, for and against

(1) the closed shop;
(2) the open shop;
(3) the closed union;
(4) the open union;
(5) labor-saving appliances;
(6) limitation of output;
(7) piece-work;
(8) a standard rate of wages;
(9) semi-military discipline by employers;
(10) the "scab";
(11) the strike;
(12) the lockout;

(13) the boycott;

(14) the black-list.

**55.** 7. What situation with respect to the closed union and closed shop is socially most desirable?

**55.** 8. Is the employer justified in insisting that in labor matters he will deal with no one not in his employ?

**55.** 9. Should you account productive laborers: (*a*) a trade-union organizer; (*b*) a "walking delegate"; (*c*) a strike agitator; (*d*) a strike breaker?

**55.** 10. Is destruction of property ever justifiable in a labor dispute? Is intimidation?

**55.** 11. Are there industries in which the strike should not be permitted?

## LABOR LEGISLATION

**56.** 1. Why should women and children seek factory employment? What consequences flow from such employment, for good? for evil?

**56.** 2. Enumerate the principal subjects of labor legislation.

**56.** 3. Is labor legislation needed in industries where trade-unions are already strong? Is there anything that may be accomplished by labor legislation that could not be accomplished by trade-unions?

**56.** 4. Why limit by statute the length of the working day (*a*) for women? (*b*) for children? (*c*) for men?

**56.** 5. Would a universal eight-hour day result in lower general wages? If not, why not? If so, are there offsetting gains?

**56.** 6. Is a man justified in protesting against a limitation of the working day on the ground that he has a right to work as long as he wishes?

**56.** 7. What conditions give rise to a demand for minimum wage legislation? What results can be obtained by such legislation?

**56.** 8. Explain wherein the problems would be different in fixing minimum wages for common unskilled labor, for various grades of skilled labor, and for women.

**56.** 9. What is to be said for and against a law requiring that everyone who works is to receive at least a "living wage"?

**56.** 10. What forces have been instrumental in bringing about labor legislation?

**56.** 11. Why has the United States been backward in labor legislation? Wherein are other countries in advance of the United States in this respect?

56. 12. Is labor legislation evidence that unrestricted competition cannot be relied on to secure the highest social well-being?

Is there any distinction between restricting competition and elevating the plane of competition?

## SOME AGENCIES FOR INDUSTRIAL PEACE

**57.** 1. What different arrangements for profit sharing have been employed?

**57.** 2. What are the aims of profit sharing? To what extent and for what reasons has it accomplished or failed to accomplish these aims? What is the prospect of its extensive adoption?

**57.** 3. What conditions are favorable, what conditions adverse, to the success of profit sharing?

**57.** 4. What are the principal types of "welfare arrangements" in industrial establishments? Why have they been introduced? What do they promise?

**57.** 5. Explain the "sliding scale." Under what circumstances may it be applied? What are its elements of strength and weakness?

**57.** 6. In what various forms may arbitration be applied in industrial disputes? What are the advantages and disadvantages of each?

**57.** 7. Distinguish arbitration and conciliation. Under what conditions is each peculiarly applicable?

**57.** 8. "Compulsory arbitration . . . may be the entering wedge to socialism." Under what circumstances, if at all, and why?

**57.** 9. Is compulsory arbitration in public service industries desirable? Is it socialistic?

**57.** 10. What advantages to employers, employees, and society at large are offered by (*a*) profit sharing? (*b*) "gain sharing"? (*c*) "welfare arrangements"? (*d*) the sliding scale? (*e*) voluntary arbitration? (*f*) compulsory arbitration?

What is the attitude of trade-unions toward each?

## WORKMEN'S INSURANCE. POOR LAWS

**58.** 1. What is the nature of insurance?

To what extent does insurance tend to prevent the occurrence of the event insured against? May it ever increase the probability of such occurrence?

**58.** 2. What are the main causes of irregularity in earnings? What is their relative importance?

**58.** 3. If workmen universally insisted on higher rates of pay in hazardous employments, would there be occasion for compulsory insurance against accidents?

**58.** 4. What are the chief methods of compensating workmen for industrial accidents?

Upon whom does the burden of compensation ultimately fall? Upon whom should it fall? Are insurance expenses an element in cost of production?

**58.** 5. Is insurance against sickness as important as insurance against accidents? as feasible? What has been the experience with it?

**58.** 6. What are the causes of unemployment? How far is it true that unemployment "brings its own remedy"?

**58.** 7. "Unemployment, though it tends to correct itself, is a continuing phenomenon." Explain.

What methods of provision for it are in use? What difficulties do they encounter?

**58.** 8. What are the different forms of provision for old age? What are the advantages and disadvantages of each?

**58.** 9. Explain: "indoor relief"; "outdoor relief." Compare their advantages.

What are the essentials of a satisfactory system of poor relief?

**58.** 10. With what force can it be argued that the following are deterrents to thrift: (*a*) industrial accident compensation; (*b*) compulsory sickness insurance; (*c*) unemployment insurance; (*d*) old age pensions; (*e*) poor relief?

## COÖPERATION

**59.** 1. What is the essence of coöperation? In what lines of economic activity has it been tried?

**59.** 2. What form of coöperation is most characteristic of England? of Germany? In which country has there been less development and why?

**59.** 3. What has been the success of, what is the economic significance of, coöperation (*a*) in retail trading by the well-to-do? (*b*) in retail trading by workingmen? (*c*) in agricultural operations? (*d*) in banking?

**59.** 4. What are the causes of the success of distributive coöperation in England? What are the reasons for its failure to develop in the United States?

**59.** 5. What are the different forms of credit coöperation? Under what conditions does the need for it arise? What conditions are essential to its success?

**59.** 6. What is the record of "coöperation in production"? What peculiar obstacles does it encounter? What of its future?

## RAILWAY PROBLEMS

**60. 1.** In order to be to the public interest must a railroad secure profits (*a*) from its passenger traffic? (*b*) from its freight traffic? (*c*) from its mail traffic? (*d*) from the beginning of its operation?

**60. 2.** What are the important economic characteristics of railways?

**60. 3.** In what ways does the tendency to increasing returns present itself in railway operation?

**60. 4.** How does the necessity of maintaining a large plant in railroading affect (*a*) the regularity of profits? (*b*) the tendency toward combination? (*c*) costs of transportation with varying volume of traffic?

**60. 5.** In what ways do railroad operations illustrate production at joint cost? What important consequences flow from this characteristic of railways?

**60. 6.** In fixing railroad rates, to what extent should the following be considered: (*a*) weight of commodity; (*b*) distance transported; (*c*) separable expense of transportation; (*d*) value of commodity; (*e*) increase in value due to "place utility"; (*f*) dividends on railroad stock?

**60. 7.** Why are railroad rates between two points frequently different according to the *direction* the commodities move?

**60. 8.** Should you expect railroad rates on copper ore to be higher or lower per ton than on coal?

Why does an express company charge no more for carrying twenty-five pounds of books than for carrying the same distance at the owner's risk twenty-five pounds of table silver?

**60. 9.** Rates on California lemons are made so low that they can compete with lemons from Sicily. Lumber from Oregon competes in Boston with lumber from Maine. Does

the practice of quoting such rates benefit (*a*) the fruit-grower and the lumberman? (*b*) the consumer? (*c*) the railroad? (O.)

**60.** 10. What is meant by "charging what the traffic will bear"? To what extent, and on what grounds, is it justifiable?

**60.** 11. To which point in each of the following cases should you expect the railroad rate from New York City to be lower: (*a*) San Francisco or Salt Lake City; (*b*) Chicago or a small town twenty miles east; (*c*) Chicago or New Orleans; (*d*) Buffalo, N.Y., or Burlington, Vt.?

**60.** 12. What is the standard of reasonableness (*a*) for the general level of railway rates? (*b*) for rates on particular commodities?

**60.** 13. Does an effective public prohibition of discrimination in rates and service between large and small shippers seem economically justifiable?

**60.** 14. Explain: "rebates"; "railway pools." Why have they been prohibited? Under what circumstances, if any, should either be permitted?

## RAILWAY PROBLEMS (*Continued*)

**61.** 1. "Railways have been the most important agents in increasing the disparities of wealth in modern times." In what ways?

**61.** 2. When may profits from railroading be said to be unearned? Is state appropriation of such unearned profits desirable? feasible?

**61.** 3. If a railroad company regularly earns 5 per cent on all its outstanding stock and bonds, can it be said to be overcapitalized? What constitutes overcapitalization? Can it be prevented by law?

**61.** 4. What relation has overcapitalization to (*a*) the profits of the company concerned? (*b*) the rates charged by the company concerned? (*c*) concentration of railroad ownership?

**61.** 5. Has private ownership of the railroads justified itself in the United States? Is its continuance imperative?

**61.** 6. To what extent is railway business conducted under monopoly conditions? Is competition tending to prevail less or more widely?

**61.** 7. "To charge what the traffic will bear under the principle of joint cost is for the public interest; to charge what it will bear under the principle of monopoly is against the public interest." Explain.

**61.** 8. What is the case for and against government ownership of railroads in the United States, with respect to (*a*) rates? (*b*) discrimination? (*c*) finance?

Private ownership & Control
" " & Pub. "
Pub. " " "
" " Priv. Management
Priv " Pub. Regulation

## PUBLIC OWNERSHIP AND PUBLIC CONTROL

**62.** 1. Enumerate and classify the principal public service industries of the present day.

**62.** 2. Are the following public service industries: (*a*) supplying milk within a city; (*b*) the maintenance of a municipal sewerage system; (*c*) jitney bus service; (*d*) the maintenance of emergency hospitals?

**62.** 3. What are the essential characteristics of public service industries?

**62.** 4. What different relationships as to ownership, management, and regulation may exist between the government and public service industries?

**62.** 5. What are the forces making for monopoly in the case of (*a*) the railroad? (*b*) the telephone? (*c*) the post office?

**62.** 6. For what reasons has private management been a necessary stage in the development of public service industries? In what industries is this stage past?

**62.** 7. On what terms should franchises be granted public service companies?

**62.** 8. If the public buys a "public utility" from private owners, what considerations should determine the terms of the purchase?

**62.** 9. What are the earmarks of an industry adapted for public management, (*a*) according to Jevons? (*b*) according to Professor Taussig?

What social and political conditions are conducive to successful public management of industries possessing these earmarks?

**62.** 10. On what grounds, if any, may public ownership be called "socialistic"? "conservative"?

**62.** 11. What two types of commission have appeared in the American states to deal with public service industries? What is each capable of accomplishing?

**62.** 12. Precisely what is meant by "publicity" as a means of regulating public service companies? In whose interests may publicity be required?

**62.** 13. Upon what points must public regulation focus?

**62.** 14. What evils may result from unwise regulation of public service companies?

## COMBINATIONS AND TRUSTS

**63.** 1. Describe briefly the various forms of industrial combination. Which now prevail, and why?

**63.** 2. What has been the status of agreements in restraint of trade (*a*) under our common law? (*b*) under the law of Continental Europe?

What important alterations have been made in the United States by statute?

**63.** 3. What factors make for the success of an industrial combination? Would success prove it to be economically superior? socially desirable?

**63.** 4. What forces tend to bring industrial monopoly? What forces tend to re-establish competitive conditions where monopoly has for a time prevailed?

**63.** 5. What is "unfair competition"? "ruinous competition"? "cutthroat competition"? "potential competition"? By what measures, if at all, may each be diminished?

**63.** 6. If an industrial combination, selling its product at competitive prices, secures large profits through various economies, is the combination socially objectionable?

**63.** 7. What influences may be expected to temper the policies of industrial combinations in the United States?

**63.** 8. What important advantages for the community are claimed for industrial combination? To what extent have these been realized?

**63.** 9. "The special question presented in this regard by the trust movement seems to be whether large-scale management adds something to the gains from large-scale production in the narrower sense. Here, too, it would appear at first sight that the matter may be allowed to settle itself. Let them fight

it out and let that form of organization survive which does the work most cheaply."

Explain: (*a*) the distinction between large-scale management and large-scale production; (*b*) what grounds there are for saying that they should be allowed to fight it out, what grounds for saying that they should not; (*c*) what policies have been pursued in the United States on this subject; (*d*) what legislation has recently been enacted.

**63.** 10. What are the earmarks of effective industrial monopoly?

**63.** 11. Should you expect (1) the tendency toward combination, (2) the tendency toward monopoly, to be strengthened, or weakened by large increases (*a*) in the savings of the community? (*b*) in general business ability? (*c*) in concentration of control of banking interests?

## SOCIALISM

**64.** 1. What changes, if any, does socialism contemplate in the following:

(*a*) the organization of production;
(*b*) the medium of exchange;
(*c*) sources of individual income;
(*d*) the institution of private property;
(*e*) the leisure class;
(*f*) individual freedom of opportunity;
(*g*) political organization;
(*h*) the organization of the family;
(*i*) education;
(*j*) prevailing religion?

**64.** 2. "To-day all over the land masons, hod-carriers, carpenters, and so on are building palaces which other people are to live in. When socialism triumphs all this will be changed. The worker, no longer robbed of the fruits of his labor, will himself occupy the palaces he builds, wear the broadcloth he makes, and eat the choice viands he produces."

Criticize. (T.)

**64.** 3. Would there be saving in a socialist state? Would there be capital formation? interest? rent?

**64.** 4. Should you regard it as wise for a socialist state to charge identical prices for two articles produced with the same amount and quality of labor, and the same amount and quality of land, if one required an elaborate, expensive plant while the other required only a simple, inexpensive plant? if the productive processes differed greatly in length?

**64.** 5. What business risks, if any, would be eliminated under socialism? What, if any, would remain?

**64.** 6. In what sense, if any, can it be said that the follow-

ing are socialistic: (*a*) public ownership and management of gas works; (*b*) public ownership and management of railroads; (*c*) compulsory arbitration between employers and workmen; (*d*) minimum wage legislation; (*e*) unemployment insurance; (*f*) a billion-dollar trust; (*g*) the Single Tax?

**64.** 7. Should you apply the term "socialistic" to proposals which, though urged by socialists, tend to prevent the coming of socialism? to proposals which tend toward socialism, though they are not directly urged by socialists?

**64.** 8. Upon what several principles might the wages of different sorts of workers be fixed under socialism? Which would be the most practicable?

**64.** 9. In a socialist community should you expect to find equalizing differences in wages? real differences? What principles of justice would be applicable in either case?

## SOCIALISM (*Continued*)

**65.** 1. Enumerate the important difficulties which socialism would encounter. Number them in what seems to you to be the order of their importance.

**65.** 2. Would the pressure of population be greater or less under socialism? What bearing would this have upon the policy and permanence of the socialist state?

**65.** 3. What grounds are there for saying that under a socialistic régime the efficiency of the rank and file of workers would be greater? less?

**65.** 4. What is the outlook for effective leadership under socialism?

**65.** 5. Socialism is sometimes described as "against human nature." To what aspects of human nature does this criticism refer? Is the point well taken?

**65.** 6. Should the goal of economic progress be primarily a better distribution or a larger production? May either be safely neglected? Which is emphasized by socialism?

Does a larger production tend to promote better distribution? Does a better distribution tend to promote larger production?

**65.** 7. What are the prospects for the early adoption of socialism? for its ultimate adoption?

(a) by (b) price for a specific service.

calls upon everyone to contribute from his all, and constructs a police force.

## SOME PRINCIPLES UNDERLYING TAXATION

**66. 1.** Classify the different sorts of payments to governments. Of which variety is each of the following: (*a*) charges for marriage licenses; (*b*) water rates; (*c*) fares paid on a government railroad; (*d*) duties imposed upon estates passing by bequest; (*e*) assessments for sidewalks levied upon owners of abutting lots?

Define a "tax."

**66. 2.** Define proportional, progressive, degressive, and regressive taxation, and illustrate each by hypothetical income tax rates.

Is an import duty of 2¢ per pound on sugar a proportional tax?

**66. 3.** What are the different theories regarding the best mode of apportioning taxes?

To which sort of taxation (proportional, progressive, or regressive) does each of these theories lead?

**66. 4.** Distinguish "funded incomes" and "unfunded incomes." What reasons can be urged for and against heavier taxation of funded incomes?

**66. 5.** Should taxation be used as an instrument for (*a*) appropriating illegitimate incomes? (*b*) restricting undesirable business practices? (*c*) absorbing monopoly profits? (*d*) reducing inequalities of wealth?

For what other objects may taxation be employed?

inheritance tax — tax on
inherited money or property.
a progressive tax.
Higher than other taxes.
Is a progressive tax right?
collateral inheritance —
tax higher.

## INCOME AND INHERITANCE TAXES

**67.** 1. Compare inheritance taxes and income taxes with respect to (*a*) ease of collection, (*b*) advisability of progressive rates, (*c*) equality of burden upon persons in like circumstances, (*d*) fitness for frequent readjustment of rates.

**67.** 2. Can one who opposes progressive taxation consistently support a progressive income tax?

**67.** 3. Is it advisable to exempt the poorer classes (*a*) from all taxes? (*b*) from all direct taxes? (*c*) from taxes on incomes?

**67.** 4. What are the two common methods of levying income taxes? Wherein is each advantageous? disadvantageous?

**67.** 5. "The principle of stoppage at the source is not consistent with progression." Explain. By what device is progression in income taxes secured despite this fact?

**67.** 6. What is the history and present status of income taxes in the United States?

**67.** 7. What are the principal features of the Federal income tax act of 1913?

## TAXES ON LAND AND BUILDINGS

**68. 1.** Trace the evolution of taxes upon real property. Why have they come to their present importance in financial legislation?

**68. 2.** Who bears the burden of a tax (*a*) on land apart from the improvements upon it? (*b*) on buildings *per se?*

What underlying difference between land and buildings is responsible for the difference of incidence? How may the shifting take place?

**68. 3.** Under what conditions is a tax on rented buildings borne by (*a*) the tenant? (*b*) the owner? (*c*) neither?

**68. 4.** How far is it true that a tax upon land is a "burdenless tax"? Can the same be said of a tax upon real estate?

**68. 5.** In what respects do different results follow according as real estate taxes are (*a*) imposed on owner or occupier? (*b*) assessed on rental or capital value?

**68. 6.** Are working men taxed by real estate taxes affecting their dwellings?

What difference does it make whether they or their landlords are assessed for such taxes?

**68. 7.** To what extent have taxes on real property been relegated to local governing bodies? What are the reasons for this policy? Is it wise?

## THE GENERAL PROPERTY TAX

**69.** 1. Why was the general property tax a satisfactory tax under simple industrial conditions? Why has it become "hopelessly impracticable"?

**69.** 2. What results usually follow from attempts rigidly to enforce the general property tax?

Explain and criticize the statement: "The general property tax works best where the letter of the law is disregarded."

**69.** 3. Is a rate of $20 in the $1000 more burdensome when imposed upon stocks and bonds than when levied upon real estate? Why or why not?

What peculiar importance is involved in the selection of the rate of taxation on stocks and bonds?

**69.** 4. What is "double taxation"? Under what circumstances, if any, is it unobjectionable? Why is the problem a serious one to-day in the United States? What solution can be suggested?

**69.** 5. Is it expedient to exempt public securities from taxation?

**69.** 6. What changes have been suggested for improving American taxation of securities? What is to be said for and against each?

**69.** 7. What would be the probable consequences of (*a*) a general tax on wages? (*b*) an all-embracing tax on property?

## TAXES ON COMMODITIES

**70.** 1. Distinguish "direct" and "indirect" taxes.

**70.** 2. What are the advantages of indirect taxes? Are there offsetting disadvantages?

**70.** 3. To what extent and by what process is a tax shifted to consumers when levied upon a commodity produced (*a*) at constant cost? (*b*) at decreasing cost? (*c*) at increasing cost? (*d*) by a monopoly?

**70.** 4. Distinguish excise taxes and customs duties. Is their operation proportional, progressive, or regressive?

What are their relative merits for purposes of revenue? Should a large or a small list of articles be selected for either form of taxation?

**70.** 5. What are fiscal monopolies? Cite examples. Are they desirable sources of public revenue?

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